UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended April 30, 2017

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from__________ to __________

Commission File Number: 0-21393

SEACHANGE INTERNATIONAL, INC.
(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**04-3197974** **(IRS Employer Identification No.)**

50 Nagog Park, Acton, MA 01720
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (978) 897-0100

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ☒ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, anon-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.): YES ☐ NO ☒

The number of shares outstanding of the registrant's Common Stock on June 2, 2017 was 35,330,542.

SEACHANGE INTERNATIONAL, INC.

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PART I – FINANCIAL INFORMATION

ITEM 1. Financial Statements

SEACHANGE INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except share data)

	April 30, 2017 (Unaudited)	January 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 26,843	$ 28,302
Restricted cash	7	109
Marketable securities	7,245	5,253
Accounts and other receivables, net of allowance for doubtful accounts of $876 at April 30, 2017 and January 31, 2017, respectively	15,225	25,985
Unbilled receivables	7,280	6,553
Inventories, net	597	770
Prepaid expenses and other current assets	2,415	2,393
Total current assets	59,612	69,365
Property and equipment, net	11,156	11,485
Marketable securities, long-term	2,989	4,991
Investments in affiliates	2,000	2,000
Intangible assets, net	2,282	2,603
Goodwill, net	23,623	23,287
Other assets	2,019	2,336
Total assets	$ 103,681	$ 116,067
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 3,063	$ 4,978
Deferred revenues	9,747	12,517
Other accrued expenses	6,841	9,928
Total current liabilities	19,651	27,423
Deferred revenue, long-term	1,922	2,419
Deferred tax liabilities, long-term	15,123	14,732
Taxes payable, long-term	1,461	1,427
Other liabilities, long-term	544	530
Total liabilities	38,701	46,531
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Common stock, $0.01 par value; 100,000,000 shares authorized; 35,368,973 shares issued and 35,328,483 outstanding at April 30, 2017, and 35,339,232 shares issued and 35,298,742 outstanding at January 31, 2017	354	353
Additional paid-in capital	237,579	236,677
Treasury stock, at cost; 40,490 common shares at April 30, 2017 and January 31, 2017, respectively	(5)	(5)
Accumulated loss	(167,489)	(162,118)
Accumulated other comprehensive loss	(5,459)	(5,371)
Total stockholders' equity	64,980	69,536
Total liabilities and stockholders' equity	$ 103,681	$ 116,067

The accompanying notes are an integral part of these unaudited, consolidated financial statements.

SEACHANGE INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited, amounts in thousands, except per share data)

	Three Months Ended April 30,	
	2017	2016
Revenues:		
Products	$ 2,749	$ 4,200
Services	13,918	17,370
Total revenues	16,667	21,570
Cost of revenues:		
Products	554	1,574
Services	5,807	10,459
Provision for loss contract	173	—
Amortization of intangible assets	254	316
Stock-based compensation expense	2	72
Total cost of revenues	6,790	12,421
Gross profit	9,877	9,149
Operating expenses:		
Research and development	5,378	8,699
Selling and marketing	2,937	3,557
General and administrative	3,643	4,071
Amortization of intangible assets	344	450
Stock-based compensation expense	875	40
Professional fees - other	21	132
Severance and other restructuring costs	2,147	1,775
Total operating expenses	15,345	18,724
Loss from operations	(5,468)	(9,575)
Other income, net	366	922
Loss before income taxes	(5,102)	(8,653)
Income tax provision	269	254
Net loss	$ (5,371)	$ (8,907)
Net loss	$ (5,371)	$ (8,907)
Other comprehensive (loss) income, net of tax:		
Foreign currency translation adjustment	(80)	607
Unrealized (loss) gain on marketable securities	(8)	9
Comprehensive loss	$ (5,459)	$ (8,291)
Net loss per share:		
Basic	$ (0.15)	$ (0.26)
Diluted	$ (0.15)	$ (0.26)
Weighted average common shares outstanding:		
Basic	35,309	34,354
Diluted	35,309	34,354

The accompanying notes are an integral part of these unaudited, consolidated financial statements.

SEACHANGE INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, amounts in thousands)

	Three Months Ended April 30, 2017	Three Months Ended April 30, 2016
Cash flows from operating activities:		
Net loss	$ (5,371)	$ (8,907)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of property and equipment	620	794
Provision for loss contract	173	—
Amortization of intangible assets	598	766
Stock-based compensation expense	877	112
Deferred income taxes	388	—
Other	(92)	40
Changes in operating assets and liabilities, excluding impact of acquisition:		
Accounts receivable	10,869	5,363
Unbilled receivables	(630)	(664)
Inventories	154	(91)
Prepaid expenses and other assets	403	853
Accounts payable	(1,717)	(1,736)
Accrued expenses	(3,865)	(2,125)
Deferred revenues	(3,310)	80
Other	(14)	29
Total cash used in operating activities	(917)	(5,486)
Cash flows from investing activities:		
Purchases of property and equipment	(196)	(159)
Purchases of marketable securities	—	(502)
Other investing activities	221	(106)
Total cash provided by (used in) investing activities	25	(767)
Cash flows from financing activities:		
Proceeds from issuance of common stock	26	33
Payments of withholding tax on RSU vesting	(9)	(76)
Other financing activities	—	(3)
Total cash provided by (used in) financing activities	17	(46)
Effect of exchange rate changes on cash	(584)	(922)
Net decrease in cash and cash equivalents	(1,459)	(7,221)
Cash and cash equivalents, beginning of period	28,302	58,733
Cash and cash equivalents, end of period	$26,843	$51,512
Supplemental disclosure of cash flow information:		
Income taxes paid	$ 136	$ 43
Supplemental disclosure of non-cash investing and financing activities:		
Fair value of common stock issued for deferred stock consideration obligation	$ —	$ 3,205

The accompanying notes are an integral part of these unaudited, consolidated financial statements.

SEACHANGE INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Nature of Business and Basis of Presentation

The Company

SeaChange International, Inc. and its consolidated subsidiaries (collectively "SeaChange", "we", or the "Company") is an industry leader in the delivery of multiscreen video, advertising and premium over-the-top ("OTT") video. Our products and services facilitate the aggregation, licensing, management and distribution of video and advertising content to cable television system operators, telecommunications companies, satellite operators and media companies.

Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of SeaChange International, Inc. and its subsidiaries ("SeaChange" or the "Company") and are prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial reports as well as rules and regulations of the Securities and Exchange Commission ("SEC"). All intercompany transactions and balances have been eliminated. Certain information and footnote disclosures normally included in financial statements prepared under U.S. GAAP have been condensed or omitted pursuant to such regulations. However, we believe that the disclosures are adequate to make the information presented not misleading. In the opinion of management, the accompanying financial statements include all adjustments, consisting of only normal recurring items, necessary to present a fair presentation of the consolidated financial statements for the periods shown. These consolidated financial statements should be read in conjunction with our most recently audited financial statements and related footnotes included in our Annual Report on Form 10-K ("Form 10-K") as filed with the SEC. The balance sheet data as of January 31, 2017 that is included in this Quarterly Report on Form10-Q ("Form 10-Q") was derived from our audited financial statements. We have reclassified certain amounts previously reported in our financial statements to conform to current presentation.

The preparation of these financial statements in conformity with U.S. GAAP, requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. Interim results are not necessarily indicative of the operating results for the full fiscal year or any future periods and actual results may differ from our estimates. During the three months ended April 30, 2017, there have been no material changes to our significant accounting policies that were described in our fiscal 2017 Form 10-K, as filed with the SEC.

The Company believes that existing funds and cash provided by future operating activities are adequate to satisfy our working capital, potential acquisitions and capital expenditure requirements and other contractual obligations for the foreseeable future, including at least the next 12 months. However, if our expectations are incorrect, we may need to raise additional funds to fund our operations, to take advantage of unanticipated strategic opportunities or to strengthen our financial position. In the future, we may enter into other arrangements for potential investments in, or acquisitions of, complementary businesses, services or technologies, which could require us to seek additional equity or debt financing. Additional funds may not be available on terms that are favorable.

In addition, we actively review potential acquisitions that would complement our existing product offerings, enhance our technical capabilities or expand our marketing and sales presence. Any future transaction of this nature could require potentially significant amounts of capital or could require us to issue our stock and dilute existing stockholders. If adequate funds are not available, or are not available on acceptable terms, we may not be able to take advantage of market opportunities, to develop new products or to otherwise respond to competitive pressures.

In the second quarter of fiscal 2017, following a review of our operations, liquidity and funding, and investment in our product roadmap, we determined that the ability to access cash resulting from earnings in prior fiscal years that had previously been deemed permanently restricted for foreign investment would provide greater flexibility to meet the Company's working capital needs. Accordingly, in the second quarter of fiscal 2017, we withdrew the permanent reinvestment assertion on $58.6 million of earnings generated by our Irish operations through July 2016. We recorded a deferred tax liability of $14.7 million related to the foreign income taxes on $58.6 million of undistributed earnings. The balance of the deferred tax liability is $15.1 million as of April 30, 2017.

2. Significant Accounting Policies

Revenue Recognition

Our transactions frequently involve the sales of hardware, software, systems and services in multiple-element arrangements. Revenues from sales of hardware, software and systems that do not require significant modification or customization of the underlying software are recognized when:

- persuasive evidence of an arrangement exists;
- delivery has occurred, and title and risk of loss have passed to the customer;
- fees are fixed or determinable; and
- collection of the related receivable is considered probable.

Customers are billed for installation, training, project management and at least one year of product maintenance and technical support at the time of the product sale. Revenue from these activities is deferred at the time of the product sale and recognized ratably over the period these services are performed. Revenue from ongoing product maintenance and technical support agreements is recognized ratably over the period of the related agreements. Revenue from software development contracts that include significant modification or customization, including software product enhancements, is recognized based on the percentage of completion contract accounting method using labor efforts expended in relation to estimates of total labor efforts to complete the contract. The percentage of completion method requires that adjustments or re-evaluations to estimated project revenues and costs be recognized on aproject-to-date cumulative basis, as changes to the estimates are identified. Revisions to project estimates are made as additional information becomes known, including information that becomes available after the date of the consolidated financial statements up through the date such consolidated financial statements are filed with the SEC. If the final estimated profit to complete a long-term contract indicates a loss, a provision is recorded immediately for the total loss anticipated. Accounting for contract amendments and customer change orders are included in contract accounting when executed. Revenue from shipping and handling costs and other out-of-pocket expenses reimbursed by customers are included in revenues and cost of revenues. Our share of intercompany profits associated with sales and services provided to affiliated companies are eliminated in consolidation in proportion to our equity ownership.

Contract accounting requires judgment relative to assessing risks, estimating revenues and costs and making assumptions including, in the case of our professional services contracts, the total amount of labor required to complete a project and the complexity of the development and other technical work to be completed. Due to the size and nature of many of our contracts, the estimation of total revenues and cost at completion is complicated and subject to many variables. Assumptions must be made regarding the length of time to complete the contract because costs also include estimated third-party vendor and contract labor costs. Penalties related to performance on contracts are considered in estimating sales and profit, and are recorded when there is sufficient information for us to assess anticipated performance. Third-party vendors' assertions are also assessed and considered in estimating costs and margin.

Revenue from the sale of software-only products remains within the scope of the software revenue recognition rules. Maintenance and support, training, consulting, and installation services no longer fall within the scope of the software revenue recognition rules, except when they are sold with and relate to a software-only product. Revenue recognition for products that no longer fall under the scope of the software revenue recognition rules is like that for other tangible products and Accounting Standard Update No. ("ASU") 2009-13, *"Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements,"* amended ASC 605 and is applicable for multiple-deliverable revenue arrangements. ASU 2009-13 allows companies to allocate revenue in a multiple-deliverable arrangement in a manner that better reflects the transaction's economics.

Under the software revenue recognition rules, the fee is allocated to the various elements based on vendor-specific objective evidence ("VSOE") of fair value. Under this method, the total arrangement value is allocated first to undelivered elements based on their fair values, with the remainder being allocated to the delivered elements. Where fair value of undelivered service elements has not been established, the total arrangement value is recognized over the period during which the services are performed. The amounts allocated to undelivered elements, which may include project management, training, installation, maintenance and technical support and certain hardware and software components, are based upon the price charged when these elements are sold separately and unaccompanied by the other elements. The amount allocated to installation, training and project management revenue is based upon standard hourly billing rates and the estimated time necessary to complete the service. These services are not essential to the functionality of systems as these services do not alter the equipment's capabilities, are available from other vendors and the systems are standard products. For multiple-element arrangements that include software development with significant modification or customization and systems sales where VSOE of the fair value does not exist for the undelivered elements of the arrangement (other than maintenance and technical support), percentage of completion accounting is applied for revenue recognition purposes to the entire arrangement except for maintenance and technical support.

Under the revenue recognition rules for tangible products as amended by ASU2009-13, the fee from a multiple-deliverable arrangement is allocated to each of the deliverables based upon their relative selling prices as determined by a selling-price hierarchy. A deliverable in an arrangement qualifies as a separate unit of accounting if the delivered item has value to the customer on a stand-alone basis. A delivered item that does not qualify as a separate unit of accounting is combined with the other undelivered items in the arrangement and revenue is recognized for those combined deliverables as a single unit of accounting. The selling price used for each deliverable is based upon VSOE if available, third-party evidence ("TPE") if VSOE is not available, and best estimate of selling price ("BESP") if neither VSOE nor TPE are available. TPE is the price of the Company's, or any competitor's, largely interchangeable products or services in stand-alone sales to similarly situated customers. BESP is the price at which we would sell the deliverable if it were sold regularly on a stand-alone basis, considering market conditions and entity-specific factors.

The selling prices used in the relative selling price allocation method for certain of our services are based upon VSOE. The selling prices used in the relative selling price allocation method for third-party products from other vendors are based upon TPE. The selling prices used in the relative selling price allocation method for our hardware products, software, subscriptions, and customized services for which VSOE does not exist are based upon BESP. We do not believe TPE exists for these products and services because they are differentiated from competing products and services in terms of functionality and performance and there are no competing products or services that are largely interchangeable. Management establishes BESP with consideration for market conditions, such as the impact of competition and geographic considerations, and entity-specific factors, such as the cost of the product, discounts provided and profit objectives. Management believes that BESP is reflective of reasonable pricing of that deliverable as if priced on a stand-alone basis.

For our cloud and managed service revenues, we generate revenue from two sources: (1) subscription and support services; and (2) professional services and other. Subscription and support revenue includes subscription fees from customers accessing our cloud-based software platform and support fees. Our arrangements with customers do not provide the customer with the right to take possession of the software supporting the cloud-based software platform at any time. Professional services and other revenue include fees from implementation and customization to support customer requirements. Amounts that have been invoiced are recorded in accounts receivable and in deferred revenue or revenue, depending on whether the revenue recognition criteria have been met. For the most part, subscription and support agreements are entered into for 12 to 36 months. Generally, most of the professional services components of the arrangements with customers are performed within a year of entering a contract with the customer.

In most instances, revenue from a new customer acquisition is generated under sales agreements with multiple elements, comprised of subscription and support and other professional services. We evaluate each element in a multiple-element arrangement to determine whether it represents a separate unit of accounting. An element constitutes a separate unit of accounting when the delivered item has standalone value and delivery of the undelivered element is probable and within our control.

In determining when to recognize revenue from a customer arrangement, we are often required to exercise judgment regarding the application of our accounting policies to an arrangement. The primary judgments used in evaluating revenue recognized in each period involve: determining whether collection is probable, assessing whether the fee is fixed or determinable, and determining the fair value of the maintenance and service elements included in multiple-element software arrangements. Such judgments can materially impact the amount of revenue that we record in a given period. While we follow specific and detailed rules and guidelines related to revenue recognition, we make and use significant management judgments and estimates about the revenue recognized in any reporting period, particularly in the areas described above. If management made different estimates or judgments, material differences in the timing of the recognition of revenue could occur.

Impairment of Assets

Indefinite-lived intangible assets, such as goodwill, are not amortized but are evaluated for impairment at the reporting unit level annually, in our third quarter beginning August 1st. Indefinite-lived intangible assets may be tested for impairment on an interim basis in addition to the annual evaluation if an event occurs or circumstances change such as declines in sales, earnings or cash flows, sustained decline in the Company's stock price, or material adverse changes in the business climate, which would more likely than not reduce the fair value of a reporting unit below its carrying amount. See Note 6, *"Goodwill and Intangible Assets,"* to our consolidated financial statements for more information.

We also evaluate property and equipment, intangible assets with finite useful lives and other long-lived assets on a regular basis for the existence of facts or circumstances, both internal and external that may suggest an asset is not recoverable. If such circumstances exist, we evaluate the carrying value of long-lived assets to determine if impairment exists based upon estimated undiscounted future cash flows over the remaining useful life of the assets and compare that value to the carrying value of the assets. Our cash flow estimates contain management's best estimates, using appropriate and customary assumptions and projections at the time.

In the third quarter of fiscal 2017, we finalized our "Step 1" analysis of our annual goodwill impairment test. Our forecast indicated that the estimated fair value of net assets may be less than its carrying value which is a potential indicator of impairment. As such, we were required to perform "Step 2" of the impairment test during which we compared the implied fair value of our goodwill to its carrying value. We completed the goodwill impairment testing of our reporting unit during the fourth quarter of fiscal 2017. Since the implied fair value of goodwill was determined to be lower than its carrying value, we recorded an impairment charge of $23.5 million to loss on impairment of long-lived assets in our consolidated statements of operations and comprehensive loss in January 2017.

In the fourth quarter of fiscal 2017, a certain cost-method investment was determined to be impaired and written off. Accordingly, we recorded a $0.5 million impairment charge in January 2017 which was included in loss on investment in affiliates in our consolidated statements of operations and comprehensive loss. The cost-method investment is a privately-held entity without quoted market prices and therefore, falls within Level 3 of the fair value hierarchy due to the use of significant unobservable inputs to determine its fair value. In determining the fair value of this cost-method investment, we considered many factors including, but not limited to, operating performance of the investee, the amount of cash that the investee has on hand and the overall market conditions in which the investee operates.

Liquidity

We continue to realize the savings related to the restructuring of our In-Home business from Milpitas to Poland. Additionally, during the first quarter of fiscal 2018, we made significant reductions to our headcount as part of our ongoing restructuring effort of which we expect to generate annualized savings of approximately $10 million. These measures are important steps in restoring SeaChange to profitability and positive cash flow. The Company believes that existing funds and cash expected to be provided by future operating activities, augmented by the plans highlighted above, are adequate to satisfy our working capital, potential acquisitions and capital expenditure requirements and other contractual obligations for the foreseeable future, including at least the next 12 months.

3. Fair Value Measurements

Definition and Hierarchy

The applicable accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The guidance establishes a framework for measuring fair value and expands required disclosure about the fair value measurements of assets and liabilities. This guidance requires us to classify and disclose assets and liabilities measured at fair value on a recurring basis, as well as fair value measurements of assets and liabilities measured on a non-recurring basis in periods subsequent to initial measurement, in a fair value hierarchy.

The fair value hierarchy is broken down into three levels based on the reliability of inputs and requires an entity to maximize the use of observable inputs, where available. The following summarizes the three levels of inputs required, as well as the assets and liabilities that we value using those levels of inputs:

- Level 1 – Observable inputs that reflect quoted prices for identical assets or liabilities in active markets.
- Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not very active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. The fair value of cost-method investments is valued using Level 3 inputs.

Valuation Techniques

Inputs to valuation techniques are observable and unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. When developing fair value estimates for certain financial assets and liabilities, we maximize the use of observable inputs and minimize the use of unobservable inputs. When available, we use quoted market prices, market comparables and discounted cash flow projections. Financial assets include money market funds, U.S. treasury notes or bonds and U.S. government agency bonds.

In general, and where applicable, we use quoted prices in active markets for identical assets or liabilities to determine fair value. If quoted prices in active markets for identical assets or liabilities are not available to determine fair value, then we use quoted prices for similar assets and liabilities or inputs that are observable either directly or indirectly. In periods of market inactivity, the observability of prices and inputs may be reduced for certain instruments. This condition could cause an instrument to be reclassified from Level 1 to Level 2 or from Level 2 to Level 3.

Assets and Liabilities that are Measured at Fair Value on a Recurring Basis

The following tables set forth our financial assets and liabilities that were accounted for at fair value on a recurring basis as of April 30, 2017 and January 31, 2017. There were no fair value measurements of our financial assets and liabilities using significant Level 3 inputs for the periods presented:

	April 30, 2017	Fair Value at April 30, 2017 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
		(Amounts in thousands)	
Financial assets:			
Money market accounts (a)	$ 2,740	$ 2,740	$ —
Available-for-sale marketable securities:			
Current marketable securities:			
U.S. treasury notes and bonds - conventional	4,748	4,748	—
U.S. government agency issues	2,497	—	2,497
Non-current marketable securities:			
U.S. treasury notes and bonds - conventional	1,495	1,495	—
U.S. government agency issues	1,494	—	1,494
Total	$ 12,974	$ 8,983	$ 3,991

	January 31, 2017	Fair Value at January 31, 2017 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
		(Amounts in thousands)	
Financial assets:			
Money market accounts (a)	$ 2,726	$ 2,726	$ —
Available-for-sale marketable securities:			
Current marketable securities:			
U.S. treasury notes and bonds - conventional	4,253	4,253	—
U.S. government agency issues	1,000	—	1,000
Non-current marketable securities:			
U.S. treasury notes and bonds - conventional	1,997	1,997	—
U.S. government agency issues	2,994	—	2,994
Total	$ 12,970	$ 8,976	$ 3,994

(a) Money market funds and U.S. treasury bills are included in cash and cash equivalents on the accompanying consolidated balance sheets and are valued at quoted market prices for identical instruments in active markets.

Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis

Assets and liabilities that are measured at fair value on a nonrecurring basis relate primarily to our tangible property and equipment, goodwill, and other intangible assets, which are re-measured when the derived fair value is below carrying value on our consolidated balance sheets. For these assets and liabilities, we do not periodically adjust carrying value to fair value except in the event of impairment. When we determine that impairment has occurred, the carrying value of the asset is reduced to fair value and the difference is recorded to loss from impairment in our consolidated statements of operations and comprehensive loss.

In the third quarter of fiscal 2017, we finalized our “Step 1” analysis of our annual goodwill impairment test. Our forecast indicated that the estimated fair value of our reporting unit’s net assets may be less than its carrying value which is a potential indicator of impairment. As such, we were required to perform “Step 2” of the impairment test during which we compared the implied fair value of our goodwill to its carrying value. We completed the goodwill impairment testing of our reporting unit during the fourth quarter of fiscal 2017 and recorded an impairment charge of $23.5 million to loss on impairment of long-lived assets in our consolidated statements of operations and comprehensive loss. This impairment was determined based on Level 2 inputs, as we used a third-party valuation firm to assist in calculating the fair value.

In January 2017, after a potential buyer declined to purchase our facility in Greenville, New Hampshire, we determined that the sale of this facility was not imminent due to the location of the building and the overall market conditions in the area and decided to fully impair the facility because the carrying amount was greater than the fair value. As a result, we recorded a $0.3 million loss on impairment of long-lived assets in our consolidated statements of operations and comprehensive loss. This impairment was determined based on Level 3 of the fair value hierarchy due to the use of significant unobservable inputs to determine its fair value.

We also have direct investments in privately-held companies, with which we do not have significant influence over their operating and financial activities and account for under the cost-method of accounting. Management periodically assesses these investments for other-than-temporary impairment, considering available information provided by the investees and any other readily available market data. If we determine that an other-than-temporary impairment has occurred, we write-down the investment to its fair value.

In the fourth quarter of fiscal 2017, we determined that the fair value of a certain cost-method investments was less than its carrying value. Accordingly, we recorded a $0.5 million impairment charge in January 2017 which is included in loss on investment in affiliates in our consolidated statements of operations and comprehensive loss. The cost-method investment is a privately-held entity without quoted market prices and therefore, falls within Level 3 of the fair value hierarchy due to the use of significant unobservable inputs to determine its fair value. In determining the fair value of this cost-method investment, we considered many factors including, but not limited to, operating performance of the investee, the amount of cash that the investee has on hand and the overall market conditions in which the investee operates. For the three months ended April 30, 2017, we determined there were no other-than-temporary impairments on our remaining cost method investments.

Available-For-Sale Securities

We determine the appropriate classification of debt investment securities at the time of purchase and reevaluate such designation as of each balance sheet date. Our investment portfolio consists of money market funds, U.S. treasury notes and bonds, and U.S. government agency notes and bonds as of April 30, 2017 and January 31, 2017. All highly liquid investments with an original maturity of three months or less when purchased are considered to be cash equivalents. All cash equivalents are carried at cost, which approximates fair value. Our marketable securities are classified as available-for-sale and are reported at fair value with unrealized gains and losses, net of tax, reported in stockholders' equity as a component of accumulated other comprehensive loss. The amortization of premiums and accretion of discounts to maturity are computed under the effective interest method and are included in other income, net, in our consolidated statements of operations and comprehensive loss. Interest on securities is recorded as earned and is also included in other income, net. Any realized gains or losses would be shown in the accompanying consolidated statements of operations and comprehensive loss in other income, net. We provide fair value measurement disclosures of available-for-sale securities in accordance with one of the three levels of fair value measurement mentioned above.

The following is a summary of cash, cash equivalents and available-for-sale securities, including the cost basis, aggregate fair value and gross unrealized gains and losses, for short- and long-term marketable securities portfolio as of April 30, 2017 and January 31, 2017:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(Amounts in thousands)		
April 30, 2017				
Cash	$ 24,103	$ —	$ —	$ 24,103
Cash equivalents	2,740	—	—	2,740
Cash and cash equivalents	26,843	—	—	26,843
U.S. treasury notes and bonds - short-term	4,748	1	(1)	4,748
U.S. treasury notes and bonds - long-term	1,502	—	(7)	1,495
U.S. government agency issues - short-term	2,482	15	—	2,497
U.S. government agency issues - long-term	1,504	—	(10)	1,494
Total cash, cash equivalents and marketable securities	$ 37,079	$ 16	$ (18)	$ 37,077
January 31, 2017				
Cash	$ 25,576	$ —	$ —	$ 25,576
Cash equivalents	2,726	—	—	2,726
Cash and cash equivalents	28,302	—	—	28,302
U.S. treasury notes and bonds - short-term	4,248	5	—	4,253
U.S. treasury notes and bonds - long-term	2,003	—	(6)	1,997
U.S. government agency issues - short-term	991	9	—	1,000
U.S. government agency issues - long-term	2,996	—	(2)	2,994
Total cash, cash equivalents and marketable securities	$ 38,540	$ 14	$ (8)	$ 38,546

The gross realized gains and losses on sale of available-for-sale securities as of April 30, 2017 and January 31, 2017 were immaterial. For purposes of determining gross realized gains and losses, the cost of securities is based on specific identification.

Contractual maturities of available-for-sale investments as of April 30, 2017 are as follows (amounts in thousands):

	Estimated Fair Value
Maturity of one year or less	$ 7,245
Maturity between one and five years	2,989
Total	$ 10,234

Cash, Cash Equivalents and Marketable Securities

Cash and cash equivalents consist primarily of highly liquid investments in money market mutual funds, government sponsored enterprise obligations, treasury bills, commercial paper and other money market securities with remaining maturities at date of purchase of 90 days or less.

The fair value of cash, cash equivalents, restricted cash and marketable securities at April 30, 2017 and January 31, 2017 was $37.1 million and $38.7 million, respectively.

Restricted Cash

At times, we may be required to maintain cash held as collateral for performance obligations with our customers which we classify as restricted cash on our consolidated balance sheets.

4. Acquisitions

DCC Labs

On May 5, 2016, we acquired a 100% share of DCC Labs in exchange for an aggregate of $2.7 million in newly issued shares of SeaChange common stock and $5.2 million in cash, net of cash acquired, resulting in a total net purchase price of $7.9 million. The stock consideration was determined by dividing the total value of $2.7 million by the volume weighted average closing price of our common stock for the twenty trading days preceding the closing. DCC Labs is a developer of set-top and multiscreen device software. Of the total consideration, $0.5 million in cash and all of the stock (681,278 shares) were initially held in escrow as security for the indemnification obligations of the former DCC Labs owners to SeaChange under the purchase agreement. One-third of the stock in escrow will be released to the former DCC Labs owners annually on the anniversary date of the acquisition beginning on May 5, 2017 and ending May 5, 2019, and one-half of the cash in escrow will be released to the former DCC Labs owners on May 5, 2017 and May 5, 2018. On May 5, 2017, $0.3 million in cash and 227,092 shares of our common stock initially deposited with an Escrow Agent were disbursed to the sellers.

The acquisition of DCC Labs enables us to optimize the operations of our In-Home business, which develops home video gateway software including SeaChange's Nucleus and NitroX products. In addition, the acquisition brings market-ready products, including an optimized television software stack for Europe's Digital Video Broadcasting community and an HTML5 framework for building additional user experience client applications across a variety of CPE devices, including Android TV STBs, tablets, mobile and compute devices.

We accounted for the acquisition of DCC Labs as a business combination, which requires us to record the assets acquired and liabilities assumed at fair value. The amount by which the purchase price exceeds the fair value of the net assets acquired was recorded as goodwill. We engaged an independent appraiser to assist management in assessing the fair values of the tangible and intangible assets acquired and liabilities assumed and the amount of goodwill to be recognized as of the acquisition date. Assets acquired in the acquisition include receivables, prepaid expenses and property and equipment while liabilities assumed include accounts payable, other accrued expenses, deferred taxes and income taxes payable. The amounts recorded for these assets and liabilities are final, based on information obtained about the facts and circumstances that existed as of the acquisition date.

The allocation of purchase price was as follows (amounts in thousands):

Estimated Fair value of consideration:	
Cash, net of cash acquired	$5,243
Stock consideration	2,640
Total purchase price	**$7,883**
Estimated Fair value of assets acquired and liabilities assumed:	
Current assets	826
Other long-term assets	116
Finite-life intangible assets	810
Goodwill	7,255
Current liabilities	(618)
Other long-term liabilities	(506)
Allocated purchase price	**$7,883**

Acquired Goodwill

We recorded the $7.3 million excess of the purchase price over the fair value of the identified tangible and intangible assets as goodwill, primarily due to expected synergies between the combined companies and expanded market opportunities. The goodwill is not deductible for tax purposes.

Intangible Assets

In determining the fair value of the intangible assets, the Company considered, among other factors, the intended use of the assets and the estimates of future performance of DCC Labs, based on analyses of historical financial performance. The fair values of identified intangible assets were calculated using an income-based approach based on estimates and assumptions provided by DCC Labs' and the Company's management.

The following table sets forth the components of the identified intangible assets associated with the DCC Labs acquisition and their estimated useful lives:

	Useful life	Fair Value (Amounts in thousands)
Tradename	4 years	$ 60
Customer contracts	2 years	230
Non-compete agreements	2 years	30
Existing technology	3 years	490
		$ 810

Impact to Fiscal 2018 Financial Results

DCC Labs' financial results have been included in our fiscal 2017 consolidated financial results only for the period from the May 5, 2016 acquisition date through January 31, 2017. As a result, our consolidated financial results for the comparable three month period ended April 30, 2016 does not reflect DCC Labs' results for that period. For the three months ended April 30, 2017, DCC Labs' revenue was not significant and its operating loss was $1.2 million.

Acquisition-related Costs

In connection with the acquisition, we incurred approximately $0.2 million in acquisition-related costs, including legal, accounting and other professional services for fiscal 2017. The acquisition costs were expensed as incurred and included in professional fees – other, in our consolidated statements of operations and comprehensive loss for the period ended January 31, 2017.

5. Consolidated Balance Sheet Detail

Inventories, net

Inventories consist primarily of hardware and related component parts and are stated at the lower of cost (on a first-in, first-out basis) or market. Inventories consist of the following:

	As of	
	April 30, 2017	January 31, 2017
	(Amounts in thousands)	
Components and assemblies	$ 368	$ 500
Finished products	229	270
Total inventories, net	$ 597	$ 770

Property and equipment, net

Property and equipment, net consists of the following:

	Estimated Useful Life (Years)	As of	
		April 30, 2017	January 31, 2017
		(Amounts in thousands)	
Land		$ 2,780	$ 2,780
Buildings	20	11,785	11,726
Office furniture and equipment	5	1,283	1,091
Computer equipment, software and demonstration equipment	3	18,227	18,194
Service and spare components	5	1,158	1,158
Leasehold improvements	1-7	1,067	1,064
		36,300	36,013
Less - Accumulated depreciation and amortization		(25,144)	(24,528)
Total property and equipment, net		$ 11,156	$ 11,485

Depreciation and amortization expense on property and equipment, net was $0.6 million and $0.8 million for the three months ended April 30, 2017 and 2016, respectively.

Other accrued expenses

Other accrued expenses consist of the following:

	As of April 30, 2017	As of January 31, 2017
	(Amounts in thousands)	
Accrued compensation and commissions	$ 1,191	$ 1,799
Accrued bonuses	1,092	1,871
Accrued restructuring	496	1,023
Employee benefits	592	885
Accrued provision for contract loss	308	168
Accrued other	3,162	4,182
Total other accrued expenses	$ 6,841	$ 9,928

6. Goodwill and Intangible Assets

Goodwill

Goodwill represents the difference between the purchase price and the estimated fair value of identifiable assets acquired and liabilities assumed. We are required to perform impairment tests related to our goodwill annually, which we perform during the third quarter of each fiscal year, or when we identify certain triggering events or circumstances that would more likely than not reduce the estimated fair value of the goodwill of the Company below its carrying amount. At April 30, 2017 and January 31, 2017, we had goodwill of $23.6 million and $23.3 million, respectively. The following table represents the changes in the carrying amount of goodwill for the three months ended April 30, 2017 (amounts in thousands):

Balance as of February 1, 2017:	
Goodwill, gross	$ 62,566
Accumulated impairment losses	(39,279)
Goodwill, net	23,287
Cumulative translation adjustment	336
Balance as of April 30, 2017:	
Goodwill, gross	62,902
Accumulated impairment losses	(39,279)
Goodwill, net	$ 23,623

We are required to perform impairment tests related to our goodwill annually, which we perform during the third quarter of each fiscal year or sooner if an indicator of impairment occurs. In the second quarter of fiscal 2017, triggering events prompted us to perform “Step 1” of the goodwill impairment test. The triggering events included; a sustained decrease in our stock price during the period, the withdrawal of the permanent reinvestment assertion on earnings generated by our Irish operations and a decline in actual revenue for the quarter compared to projected amounts, which was previously reported in a Current Report on Form 8-K furnished to the SEC on August 23, 2016. The outcome of that preliminary “Step 1” analysis revealed that as of July 31, 2016, the fair value of the net assets exceeded its carrying value by a range of $15.4 million to $25.0 million, or 15.0% to 24.4% of the carrying value of our net assets.

During the third quarter of fiscal 2017, we finalized our “Step 1” analysis of the goodwill impairment test. Our forecast indicated that the estimated fair value of net assets may be less than the carrying value which is a potential indicator of impairment. As such, we were required to perform “Step 2” of the impairment test during which we compare the implied fair value of our goodwill to its carrying value.

We determined based on “Step 1” of our fiscal 2017 annual impairment test, that the fair value of our reporting unit was less than its carrying value, which was $102.5 million at August 1, 2016. Since the estimated fair value of our reporting unit was less than its carrying value, we determined that it was necessary to perform “Step 2” of the impairment test. In “Step 2” of the impairment test we compared the implied fair value of our goodwill to its carrying value. After adjusting the carrying value of all assets, liabilities and equity to fair value at August 1, 2016, the estimated implied fair value of goodwill was calculated to be $22.3 million. Since the implied fair value of goodwill of $22.3 million is less than the carrying value of $45.8 million as of August 1, 2016, we recorded an impairment charge of $23.5 million to loss on impairment of long-lived assets in our consolidated statements of operations and comprehensive loss in January 2017.

There were no indicators of impairment during the first quarter of fiscal 2018. Therefore, no impairment test was required.

Intangible Assets

Intangible assets, net, consisted of the following at April 30, 2017 and January 31, 2017:

	Weighted average remaining life (Years)	As of April 30, 2017			As of January 31, 2017		
		Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
		(Amounts in thousands)					
Finite-life intangible assets:							
Customer contracts	2.3	$30,260	$ (28,488)	$1,772	$30,056	$ (28,019)	$2,037
Non-compete agreements	2.4	2,406	(2,390)	16	2,374	(2,356)	18
Completed technology	1.0	10,620	(10,173)	447	10,496	(9,997)	499
Trademarks, patents and other	3.0	7,133	(7,086)	47	7,125	(7,076)	49
Total finite-life intangible assets	2.3	$50,419	$ (48,137)	$2,282	$50,051	$ (47,448)	$2,603

As of April 30, 2017, the estimated future amortization expense for our finite-life intangible assets is as follows (amounts in thousands):

Fiscal Year Ended January 31,	Estimated Amortization Expense
2018 (for the remaining nine months)	$ 1,204
2019	837
2020	236
2021	5
2022	—
2023 and thereafter	—
Total	$ 2,282

7. Commitments and Contingencies

Indemnification and Warranties

We provide indemnification, to the extent permitted by law, to our officers, directors, employees and agents for liabilities arising from certain events or occurrences while the officer, director, employee or agent is, or was, serving at our request in such capacity. With respect to acquisitions, we provide indemnification to, or assume indemnification obligations for, the current and former directors, officers and employees of the acquired companies in accordance with the acquired companies' governing documents. As a matter of practice, we have maintained directors' and officers' liability insurance including coverage for directors and officers of acquired companies.

We enter into agreements in the ordinary course of business with customers, resellers, distributors, integrators and suppliers. Most of these agreements require us to defend and/or indemnify the other party against intellectual property infringement claims brought by a third party with respect to our products. From time to time, we also indemnify customers and business partners for damages, losses and liabilities they may suffer or incur relating to personal injury, personal property damage, product liability, and environmental claims relating to the use of our products and services or resulting from the acts or omissions of us, our employees, authorized agents or subcontractors. From time to time we have received requests from customers for indemnification of patent litigation claims. Management cannot reasonably estimate any potential losses, but these claims could result in material liability for us. There are no current pending legal proceedings, in the opinion of management, that would have a material adverse effect on our financial position, results from operations and cash flows. There is no assurance that future legal proceedings arising from ordinary course of business or otherwise, will not have a material adverse effect on our financial position, results from operations or cash flows.

We warrant that our products, including software products, will substantially perform in accordance with our standard published specifications in effect at the time of delivery. In addition, we provide maintenance support to our customers and therefore allocate a portion of the product purchase price to the initial warranty period and recognize revenue on a straight-line basis over that warranty period related to both the warranty obligation and the maintenance support agreement. When we enter into arrangements that include revenue for extended warranties beyond the standard duration, the revenue is deferred and recognized on a straight-line basis over the contract period. Related costs are expensed as incurred.

8. Severance and Other Restructuring Costs

Restructuring Costs

During the three months ended April 30, 2017, we incurred restructuring charges of $2.1 million primarily from employee-related benefits for terminated employees and costs to close facilities.

The following table shows the activity in accrued restructuring reported as a component of other accrued expenses on the consolidated balance sheet as of April 30, 2017 (amounts in thousands):

	Employee-Related Benefits	Closure of Leased Facilities	Other Restructuring	Total
Accrual balance as of January 31, 2017	$ 785	$ 130	$ 108	$ 1,023
Restructuring charges incurred	2,002	15	122	2,139
Cash payments	(2,367)	(160)	(144)	(2,671)
Other charges	5	—	—	5
Accrual balance as of April 30, 2017	$ 425	$ (15)	$ 86	$ 496

During the third quarter of fiscal 2017, we implemented a restructuring program ("Restructuring Plan") with the purpose of reducing costs and assisting in restoring SeaChange to profitability and positive cash flow. The total estimated restructuring costs associated with the Restructuring Plan are anticipated to be approximately $5.3 million and will be recorded in severance and other restructuring costs in our consolidated statements of operations and comprehensive loss as they are incurred. We recorded $2.1 million of restructuring expense in connection with this plan during the three months ended April 30, 2017, which was primarily made up of employee-related costs. Since its implementation, we have recognized $5.2 million in restructuring charges related to the Restructuring Plan and we expect to incur any remaining charges by the end of fiscal 2018. Any changes to the estimate of executing the Restructuring Plan will be reflected in our future results of operations.

During the second quarter of fiscal 2017, we restructured our operations in connection with the acquisition of DCC Labs. This restructuring resulted in a workforce reduction within our In-Home engineering and services organization and in the closing of our facility in Portland, Oregon and a substantial reduction to our facility in Milpitas, California. We incurred charges totaling $1.9 million in severance and other restructuring costs from the second quarter of fiscal 2017 through the first quarter of fiscal 2018 related to the acquisition of DCC Labs. Once we complete our integration plan, any further reduction in workforce may result in additional restructuring charges.

9. Stockholders' Equity

2011 Compensation and Incentive Plan

In July 2011, our stockholders approved the adoption of our 2011 Compensation and Incentive Plan (the "2011 Plan"). Under the 2011 Plan, as amended in July 2013, the number of shares of common stock authorized for grant is equal to 5,300,000 shares plus the number of shares that were expired, terminated, surrendered or forfeited subsequent to July 20, 2011 under the Amended and Restated 2005 Equity Compensation and Incentive Plan (the "2005 Plan"). Following approval of the 2011 Plan, we terminated the 2005 Plan. The 2011 Plan provides for the grant of incentive stock options, nonqualified stock options, restricted stock, restricted stock units ("RSUs"), deferred stock units ("DSUs") and other equity based non-stock option awards as determined by the plan administrator to officers, employees, consultants, and directors of the Company. On July 13, 2016, our stockholders approved an amendment to the 2011 Plan which:

- Approved the removal of minimum vesting periods for stock option, RSU and other stock-based awards, but excluding restricted stock, under the 2011 Plan; and
- Approved the material terms of the performance goals of the 2011 Plan under which tax-deductible compensation may be paid for purposes of rules under the Internal Revenue Code of 1986, as amended, including the business criteria on which performance goals may be based.

Effective February 1, 2014, SeaChange gave its non-employee members of the Board of Directors the option to receive DSUs in lieu of RSUs, beginning with the annual grant for fiscal 2015. The number of units subject to the DSUs is determined as of the grant date and shall fully vest one year from the grant date. The shares underlying the DSUs are not vested and issued until the earlier of the director ceasing to be a member of the Board of Directors (provided such time is subsequent to the first day of the succeeding fiscal year) or immediately prior to a change in control. Commencing with fiscal 2016, we changed the policy regarding the timing of the equity grant from the first day of the applicable fiscal year to the date of our annual meeting of stockholders. To facilitate the transition, a partial year grant was made to our non-employee directors, effective February 1, 2015, and a full year grant was made to our non-employee directors, effective July 15, 2015.

We may satisfy awards upon the exercise of stock options or the vesting of stock units with newly issued shares or treasury shares. The Board of Directors is responsible for the administration of the 2011 Plan and determining the terms of each award, award exercise price, the number of shares for which each award is granted and the rate at which each award vests. In certain instances, the Board of Directors may elect to modify the terms of an award. As of April 30, 2017, there were 456,677 shares available for future grant under the 2011 Plan.

Option awards may be granted to employees at an exercise price per share of not less than 100% of the fair market value per common share on the date of the grant. Stock units may be granted to any officer, employee, director, or consultant at a purchase price per share as determined by the Board of Directors. Option awards granted under the 2011 Plan generally vest over a period of one to four years and expire ten years from the date of the grant.

In fiscal 2016, the Board of Directors developed a new Long-Term Incentive ("LTI") Program under which the named executive officers and other key employees of the Company will receive long-term equity-based incentive awards, which are intended to align the interests of our named executive officers and other key employees with the long-term interests of our stockholders and to emphasize and reinforce our focus on team success. Long-term equity-based incentive compensation awards are made in the form of stock options, RSUs and performance stock units ("PSUs") subject to vesting based in part on the extent to which employment continues for three years.

We have granted market-based options to certain newly appointed officers. These stock options have an exercise price equal to our closing stock price on the date of grant and will vest in approximately equal increments based upon the closing price of SeaChange's common stock. We record the fair value of these stock options using the Monte Carlo simulation model, since the stock option vesting is variable depending on the closing price of our traded common stock. The model simulated the daily trading price of the market-based stock options expected terms to determine if the vesting conditions would be triggered during the term. Effective April 6, 2016, Ed Terino, who previously served as our Chief Operating Officer ("COO"), was appointed Chief Executive Officer ("CEO") of SeaChange and was granted 600,000 market-based options, bringing the total of his market-based options, when added to the 200,000 market-based options he received upon hire as COO in June 2015, to 800,000 market-based options. The fair value of these 800,000 stock options was estimated to be $2.1 million. As of April 30, 2017, $0.6 million remained unamortized on these market-based stock options, which will be expensed over the next 2.1 years, the remaining weighted average amortization period.

2015 Employee Stock Purchase Plan

In July 2015, we adopted the 2015 Employee Stock Purchase Plan (the "ESPP"). The purpose of the ESPP is to provide eligible employees, including executive officers of SeaChange, with the opportunity to purchase shares of our common stock at a discount through accumulated payroll deductions of up to 15%, but not less than one percent of their eligible compensation, subject to any plan limitations. Offering periods typically commence on October 1st and April 1st and end on March 31st and September 30th with the last trading day being the exercise date for the offering period. On each purchase date, eligible employees will purchase our stock at a price per share equal to 85% of the closing price of our common stock on the exercise date, but no less than par value. The maximum number of shares of our common stock which will be authorized for sale under the ESPP is 1,150,000 shares. Stock-based compensation expense related to the ESPP was not significant for the three months ended April 30, 2017.

10. Accumulated Other Comprehensive Loss

The following shows the changes in the components of accumulated other comprehensive loss for the three months ended April 30, 2017:

	Foreign Currency Translation Adjustment	Changes in Fair Value of Available-for-Sale Investments	Total
	(Amounts in thousands)		
Balance at January 31, 2017	$ (5,377)	$ 6	$(5,371)
Other comprehensive loss	(80)	(8)	(88)
Balance at April 30, 2017	$ (5,457)	$ (2)	$(5,459)

Unrealized holding gains (losses) on securities available-for-sale are not material for the periods presented.

Comprehensive loss consists of our net loss and other comprehensive income (loss), which includes foreign currency translation adjustments and changes in unrealized gains and losses on marketable securities available-for-sale. For purposes of comprehensive loss disclosures, we do not record tax expense or benefits for the net changes in the foreign currency translation adjustments.

11. Segment Information, Significant Customers and Geographic Information

Segment Information

Our operations are organized into one reportable segment. Operating segments are defined as components of an enterprise evaluated regularly by the Company's chief operating decision maker in deciding how to allocate resources and assess performance. Our reportable segment was determined based upon the nature of the products offered to customers, the market characteristics of each operating segment and the Company's management structure.

Significant Customers

One customer accounted for 28% and 32% of our total revenues for the three months ended April 30, 2017 and 2016.

Geographic Information

The following table summarizes revenues by customers' geographic locations for the periods presented:

	Three Months Ended April 30,			
	2017		2016	
	Amount	%	Amount	%
	(Amounts in thousands, except percentages)			
Revenues by customers' geographic locations:				
North America (1)	$ 8,326	50%	$ 10,671	50%
Europe and Middle East	7,165	43%	9,141	42%
Latin America	721	4%	1,185	5%
Asia Pacific	455	3%	573	3%
Total	$ 16,667		$ 21,570	

(1) Includes total revenues for the United States for the periods shown as follows (amounts in thousands, except percentage data):

	Three Months Ended April 30,	
	2017	2016
U.S. Revenue	$ 7,028	$ 8,446
% of total revenues	42.2%	39.2%

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12. Income Taxes

We recorded an income tax provision of $0.3 million for each of the three months ended April 30, 2017 and 2016. Our effective tax rate in fiscal 2018 and in future periods may fluctuate on a quarterly basis as a result of changes in our jurisdictional forecasts where losses cannot be benefitted due to the existence of valuation allowances on our deferred tax assets, changes in actual results versus our estimates, or changes in tax laws, regulations, accounting principles, or interpretations thereof.

The Company reviews all available evidence to evaluate the recovery of deferred tax assets, including the recent history of losses in all tax jurisdictions, as well as its ability to generate income in future periods. As of April 30, 2017, due to the uncertainty related to the ultimate use of certain deferred income tax assets, the Company has recorded a valuation allowance on certain of its deferred assets.

We file income tax returns in the U.S. federal jurisdiction, various state jurisdictions, and various foreign jurisdictions. We have closed out an audit with the Internal Revenue Service ("IRS") through fiscal 2013, however, the taxing authorities will still have the ability to review the propriety of certain tax attributes created in closed years if such tax attributes are utilized in an open tax year, such as our federal research and development credit carryovers.

13. Net Loss Per Share

Net loss per share is presented in accordance with authoritative guidance which requires the presentation of "basic" and "diluted" earnings per share. Basic earnings (loss) per share is computed by dividing earnings (loss) available to common shareholders by the weighted-average shares of common stock outstanding during the period. For the purposes of calculating diluted earnings per share, the denominator includes both the weighted average number of shares of common stock outstanding during the period and the weighted average number of shares of potential dilutive shares of common stock, such as stock awards, calculated using the treasury stock method. Basic and diluted net loss per share was the same for all the periods presented as the impact of potential dilutive shares outstanding was anti-dilutive.

The following table sets forth our computation of basic and diluted net loss per common share (amounts in thousands, except per share amounts):

	Three Months Ended April 30,	
	2017	**2016**
Net loss	$ (5,371)	$ (8,907)
Weighted average shares used in computing net loss per share - basic and diluted	35,309	34,354
Net loss per share:		
Basic	$ (0.15)	$ (0.26)
Diluted	$ (0.15)	$ (0.26)

The number of common shares used in the computation of diluted net loss per share for the three months ended April 30, 2017 and 2016 does not include the effect of the following potentially outstanding common shares because the effect would have been anti-dilutive (amounts in thousands):

	Three Months Ended April 30,	
	2017	**2016**
Stock options	1,698	927
Restricted stock units	1,126	896
Deferred stock units	106	74
Performance stock units	316	—
Total	3,246	1,897

14. Recent Accounting Standard Updates

We consider the applicability and impact of all ASUs on our consolidated financial statements. Updates not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on our consolidated financial position or results of operations. Recently issued ASUs which we feel may be applicable to us are as follows:

Recently Issued Accounting Standard Updates – Not Yet Adopted

Revenue from Contracts with Customers (Topic 606)

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU2014-09, *"Revenue from Contracts with Customers (Topic 606),"* to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and the International Financial Reporting Standards. This guidance supersedes previously issued guidance on revenue recognition and gives a five step process an entity should follow so that the entity recognizes revenue that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In July 2015, the FASB deferred the effective date of this guidance to annual reporting periods beginning after December 15, 2017, which would be our fiscal 2019 reporting period. Early adoption is permitted.

Subsequently, the FASB issued ASUs in 2016 containing implementation guidance related to ASU2014-09. In March 2016, the FASB issued ASU2016-10, *"Principal versus Agent Considerations (Reporting Revenue Gross versus Net),"* which finalizes its amendments to the guidance in the new revenue standard on assessing whether an entity is a principal or an agent in a revenue transaction. This conclusion impacts whether an entity reports revenue on a gross or net basis. In April 2016, the FASB issued ASU 2016-08 *"Identifying Performance Obligations and Licensing,"* which finalizes its amendments to the guidance in the new revenue standard regarding the identification of performance obligations and accounting for the license of intellectual property. And in May 2016, the FASB issued ASU 2016-12, *"Narrow-Scope Improvements and Practical Expedients"* which finalizes its amendments to the guidance in the new revenue standard on collectability, noncash consideration, presentation of sales tax, and transition. The amendments are intended to make the guidance more operable and lead to more consistent application. The amendments have the same effective date and transition requirements as the new revenue recognition standard. We are continuing to evaluate what impact future adoption of this guidance will have on our consolidated financial statements.

Leases

In February 2016, the FASB issued ASU2016-02, *"Leases (Topic 842)."* ASU 2016-02 requires a lessee to recognize a right-of-use asset and a lease liability for operating leases with terms over twelve months, initially measured at the present value of the lease payments, in its balance sheet. The standard also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, on a generally straight-line basis. It also requires lessees to classify leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase of the leased asset by the lessee. This classification will determine whether the lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. ASU 2016-02 is effective for us in the first quarter of fiscal 2020. Early adoption is permitted. We are currently evaluating what impact the adoption of this update will have on our consolidated financial statements.

Cash Flow Statement

In August 2016, the FASB issued ASU2016-15, *"Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments,"* ASU 2016-15 provides guidance on the classification of certain cash receipts and payments in the statement of cash flows where diversity in practice exists. The guidance is effective for interim and annual periods beginning in our first quarter of fiscal 2019, and early adoption is permitted. ASU 2016-15 must be applied retrospectively to all periods presented but may be applied prospectively if retrospective application would be impracticable. We are currently evaluating what impact the adoption of this update will have on our consolidated financial statements.

In November 2016, the FASB issued ASU2016-18, *"Statement of Cash Flows (Topic 230): Restricted Cash."* ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning and ending balances shown on the statement of cash flows. The guidance is effective for us in the first quarter of fiscal 2019 and early adoption is permitted. ASU 2016-18 must be applied retrospectively to all periods presented. We are currently evaluating what impact the adoption of this update will have on our consolidated financial statements.

Intangibles-Goodwill and Other

In January 2017, the FASB issued ASU2017-04, *"Intangibles-Goodwill and Other (Topic 350),* which simplifies the subsequent measurement of goodwill by removing "Step 2" of the two-step impairment test. The amendment requires an entity to perform its annual, or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. A goodwill impairment will be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The guidance is effective for us beginning in the first quarter of fiscal 2021. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We are currently evaluating what impact the adoption of this update will have on our consolidated financial statements.

Stock Compensation

In May 2017, the FASB issued ASU2017-09, *"Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting,*which provides guidance about which changes to the terms or conditions of a share-based payment awards require an entity to apply modification accounting under ASC 718. The guidance is effective for us beginning in the first quarter of fiscal 2019 and early adoption is permitted. We do not expect that the adoption of this guidance will have a material impact on our consolidated financial statements.

Recently Issued Accounting Standard Updates – Adopted During the Period

Stock Compensation

In March 2016, the FASB issued ASU2016-09, *"Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting."*ASU 2016-09 intended to simplify several aspects of the accounting for share-based payment transactions, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statements of cash flows.

We adopted this guidance effective February 1, 2017, the beginning of our fiscal 2018. Upon adoption, excess tax benefits from share-based award activity are reflected in the consolidated statements of operations and comprehensive loss as a component of income tax provision, whereas previously, such income tax benefits were recognized as part of additional paid-in capital and could not be recognized until they were realized through a reduction in income taxes payable. Due to our current net operating loss and valuation allowance position, the new standard will not immediately cause volatility in our effective tax rates and earnings per share due to the tax effects related to share-based payments being recorded to the consolidated statements of operations and comprehensive loss. We have excess tax benefits of $1.8 million that increased the deferred tax assets related to our various tax attribute carryforwards upon adoption of ASU 2016-09 and a corresponding increase to our valuation allowance, consistent with our existing valuation allowance assessment. The volatility in future periods will depend on the valuation allowance, our stock price at the awards' vest dates, and the number of awards that vest in each period. We have elected to continue to estimate the number of stock-based awards expected to vest, as permitted by the guidance, rather than electing to account for forfeitures as they occur.

This ASU requires that employee taxes paid when an employer withholds shares fortax-withholding purposes be reported as financing activities in the consolidated statements of cash flows. Previously, these cash flows were included in operating activities. This change was required to be applied on a retrospective basis and we have made the appropriate changes to the statements of cash flows as of April 30, 2017 and 2016 included in this Form 10-Q.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This Form 10-Q contains or incorporates forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, and such statements involve risks and uncertainties. The following information should be read in conjunction with the unaudited consolidated financial information and the notes thereto included in this Form 10-Q. You should not place undue reliance on these forward-looking statements. Actual events or results may differ materially due to competitive factors and other factors referred to in Part I, Item 1A. "Risk Factors" in our Form 10-K for our fiscal year ended January 31, 2017 and elsewhere in this Form10-Q. These factors may cause our actual results to differ materially from any forward-looking statement. These forward-looking statements are based on current expectations, estimates, forecasts and projections about the industry and markets in which we operate, and management's beliefs and assumptions. We undertake no obligation to publicly update or revise the statements in light of future developments. In addition, other written or oral statements that constitute forward-looking statements may be made by us or on our behalf. Words such as "expect," "anticipate," "intend," "plan," "believe," "could," "estimate," "may," "target," "project," or variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions that are difficult to predict.

Business Overview

We are an industry leader in the delivery of multiscreen, advertising and premium over-the-top ("OTT") video headquartered in Acton, Massachusetts. Our products and services facilitate the aggregation, licensing, management and distribution of video and advertising content for cable television system operators, telecommunications companies, satellite operators and media companies. We currently operate under one reporting segment.

We address what we see as the continuing rise of OTT services by such companies as Netflix, Hulu and Amazon and by media companies such as HBO, CBS and BBC. This rise of OTT video services in the United States has increased the demand for multiscreen capabilities on a range of consumer devices operating on cloud-based platforms. We have been increasing our strategic investments in research and development related to our cloud-based offerings, as well as in sales and marketing as we focus on our go-to-market efforts in this area.

We continue to invest in our Rave premium OTT video platform ("Rave") which is our cloud-basedsoftware-as-a-service ("SaaS") offering that permits service providers and media companies to offer features and functions through a service hosted and managed by SeaChange, reducing cost and increasing speed and ease of use for end users. We believe that by delivering innovative solutions to both our existing customer base and to content owners that are looking to provide OTT services, we can meet their growing needs and help them get to market faster, which will help them drive new revenue growth. Recognizing the importance of OTT, we have architected our cloud solutions and products to make integrating with existing networks simple and this is a core competency of our platform. We have optimized our software solutions to serve a wide range of consumer devices.

We expect to increase software sales in North America and Europe, the Middle East and Africa ("EMEA") through targeted sales efforts in those regions. In addition, we believe that we have the opportunity for revenue growth by expanding our selling efforts in new geographic areas such as Asia Pacific and Latin America. We also believe that our existing service operator customers will continue upgrading to new features that can increase average revenue per subscriber, reduce operating and capital expenses, and lower customer churn.

We continue to experience fluctuations in our revenues from period to period due to the following factors:

- Changes to estimated times to complete long-term projects;
- The time required to deliver and install the product and for the customer to accept the product and services;
- Timing of customers in selecting programs to launch our services to their end users;
- The ability of our customers to process the purchase order within their organization in a timely manner;
- The transition from perpetual license to subscription, cloud-based revenue;
- Budgetary approvals by our customers for capital purchases;
- Uncertainty caused by potential consolidation in the industry; and
- Changes in foreign exchange rates.

These, together with other factors, could result in reductions in sales of our products, longer sales cycles, difficulties in collection of accounts receivable, a longer period of time before we may recognize revenue attributable to a sale, changes in cost estimates on long-term contracts that could result in a loss provision, gross margin deterioration, slower adoption of new technologies, the transition to software-as-a-service ("SaaS") delivery, and increased price competition.

On May 5, 2016, we acquired a 100% share of DCC Labs in exchange for an aggregate of $2.7 million in newly issued shares of SeaChange common stock and $5.2 million in cash, net of cash acquired, resulting in a total net purchase price of $7.9 million. The stock consideration was determined by dividing the total value of $2.7 million by the volume weighted average closing price of our common stock for the twenty trading days preceding the closing. DCC Labs is a developer of set-top and multiscreen device software. Of the total consideration, $0.5 million in cash and all of the stock (681,278 shares) were initially held in escrow as security for the indemnification obligations of the former DCC Labs owners to SeaChange under the purchase agreement. One-third of the stock in escrow will be released to the former DCC Labs owners annually on the anniversary date of the acquisition beginning on May 5, 2017 and ending May 5, 2019, and one-half of the cash in escrow will be released to the former DCC Labs owners on May 5, 2017 and May 5, 2018. On May 5, 2017, $0.3 million in cash and 227,092 shares of our common stock initially deposited with an Escrow Agent were disbursed to the sellers.

The acquisition of DCC Labs enables us to optimize the operations of ourIn-Home business, which develops home video gateway software including SeaChange's Nucleus and NitroX products. In addition, the acquisition brings market-ready products, including an optimized television software stack for Europe's Digital Video Broadcasting community, and an HTML5 framework for building additional user experience client applications across a variety of CPE devices, including Android TV STBs, tablets, mobile and compute devices.

In conjunction with the DCC Labs acquisition, SeaChange commenced a workforce reduction within its In-Home engineering and services organization, which allowed us to achieve approximately $8 million in annualized cost savings. This reduction in workforce has resulted in aggregate charges of $1.9 million in severance and other restructuring costs since its implementation.

In addition to the reduction in workforce associated with the acquisition of DCC Labs, we implemented additional company-wide cost savings efforts during the second half of fiscal 2017, which includes a worldwide reduction in workforce, to help improve operations and optimize our cost structure with the goal of assisting in restoring SeaChange to profitability and positive cash flow. In the first quarter of fiscal 2018, we recognized $2.1 million of restructuring costs related to these cost-saving initiatives and have recognized $5.2 million since the program was implemented.

We recorded an income tax provision of $14.6 million in fiscal 2017, primarily relating to deferred income tax expense of $14.7 million related to the undistributed foreign earnings of certain of our foreign subsidiaries. Prior to the end of the second quarter of fiscal 2017, we asserted that the undistributed earnings of all our foreign subsidiaries were permanently reinvested and, accordingly were not subject to U.S. income taxes. In the second quarter of fiscal 2017, following a review of our operations, liquidity and funding, and investment in our product roadmap, we determined that the ability to access certain amounts of foreign earnings would provide greater flexibility to meet the Company's working capital needs. Accordingly, in the second quarter of fiscal 2017, we withdrew the permanent reinvestment assertion on $58.6 million of earnings generated by our Irish operations through July 2016, and recorded a deferred tax liability of $14.7 million related to the foreign income on the $58.6 million of undistributed earnings. As of April 30, 2017, the balance of the deferred tax liability is $15.1 million. There is no certainty as to the timing of when such foreign earnings will be distributed via dividend to the United States in whole or in part. In addition, when the foreign earnings are distributed to the United States, we anticipate that a substantial portion of the resulting U.S. income taxes would be reduced by existing tax attributes.

Results of Operations

The following discussion summarizes the key factors our management believes are necessary for an understanding of our consolidated financial statements.

Revenues

The following table summarizes information about our revenues for the three months ended April 30, 2017 and 2016:

	Three Months Ended April 30, 2017	Three Months Ended April 30, 2016	Increase/ (Decrease) $ Amount	Increase/ (Decrease) % Change
	(Amounts in thousands, except for percentage data)			
Revenues:				
Product	$ 2,749	$ 4,200	$ (1,451)	(34.5%)
Service	13,918	17,370	(3,452)	(19.9%)
Total revenues	16,667	21,570	(4,903)	(22.7%)
Cost of product revenues	580	1,656	(1,077)	(65.0%)
Cost of service revenues	6,037	10,765	(4,727)	(43.9%)
Provision for loss contract	173	—	173	100.0%
Total cost of revenues	6,790	12,421	(5,631)	(45.3%)
Gross profit	$ 9,877	$ 9,149	$ 728	8.0%
Gross product profit margin	78.9%	60.6%		18.3%
Gross service profit margin	55.4%	38.0%		17.4%
Gross profit margin	59.3%	42.4%		16.9%

Product Revenue. The decrease in product revenue for the three months ended April 30, 2017 of $1.5 million was primarily due to a $0.7 million decrease in our video platform revenue as compared to the same period of fiscal 2017. Also, there was a $0.5 million decrease in revenue from third-party product revenue.

Service Revenue. Service revenue decreased $3.5 million for the three months ended April 30, 2017, as compared to the same period of fiscal 2017, primarily due to less revenue recognized for professional services provided on our video platform during the current fiscal year period. Additionally, there was a decrease in maintenance and support revenue provided on post-warranty contracts. However, we did recognize higher revenue on our subscriptions and SaaS sales during the first quarter of fiscal 2018, as compared to the same period of fiscal 2017.

During each of the three months ended April 30, 2017 and 2016, one customer accounted for more than 10% of our total revenue. See Note 11,*"Segment Information, Significant Customers and Geographic Information,"* to our consolidated financial statements for more information.

International revenues accounted for approximately 58% and 61% of total revenues in the three months ended April 30, 2017 and 2016, respectively. The decrease in the international sales as a percentage of total revenue for the three months ended April 30, 2017, as compared to the same prior period is primarily due to the decrease in revenue outside the United States at a higher rate than the decrease in domestic revenue.

Gross Profit and Margin. Cost of revenues consists primarily of the cost of resold third-party products and services, purchased components and subassemblies, labor and overhead relating to the assembly and testing of complete systems and costs related to customized software development contracts.

Our gross profit margin increased 17 percentage points for the three months ended April 30, 2017, as compared to the same period of the prior fiscal year. Product gross margin increased 18 percentage points for the three months ended April 30, 2017, as compared to the same period in the prior fiscal year, primarily due to a decrease in costs, specifically employee-related costs resulting from the cost-savings initiatives implemented beginning in the third quarter of fiscal 2017. Service profit margins increased 17 percentage points for the three months ended April 30, 2017, as compared to the same period of the prior fiscal year. This is also due to lower employee-related costs described above.

Operating Expenses

Research and Development

The following table provides information regarding the change in research and development expenses during the periods presented:

	Three Months Ended April 30,		Increase/ (Decrease)	Increase/ (Decrease)
	2017	2016	$ Amount	% Change
	(Amounts in thousands, except for percentage data)			
Research and development expenses	$ 5,378	$ 8,699	$ (3,321)	(38.2%)
% of total revenues	32.3%	40.3%		

Research and development expenses consist primarily of employee costs, which include salaries, benefits and related payroll taxes, depreciation of development and test equipment and an allocation of related facility expenses. During the three months ended April 30, 2017, research and development costs decreased $3.3 million, as compared to the same period of fiscal 2017, primarily due to lower labor costs associated with the decreased headcount from the restructuring of the research and development group after our acquisition of DCC Labs in May 2016 and to cost-savings efforts implemented in the second half of fiscal 2017.

Selling and Marketing

The following table provides information regarding the change in selling and marketing expenses during the periods presented:

	Three Months Ended April 30,		Increase/ (Decrease)	Increase/ (Decrease)
	2017	2016	$ Amount	% Change
	(Amounts in thousands, except for percentage data)			
Selling and marketing expenses	$ 2,937	$ 3,557	$ (620)	(17.4%)
% of total revenues	17.6%	16.5%		

Selling and marketing expenses consist primarily of payroll costs, which include salaries and related payroll taxes, benefits and commissions, travel expenses and certain promotional expenses. Selling and marketing expenses decreased $0.6 million for the three months ended April 30, 2017, as compared to the same period of the prior fiscal year, primarily due to lower employee-related costs. These lower costs were a result of the cost-savings initiatives implemented in the second half of fiscal 2017. This restructuring resulted in terminations of eight sales and marketing employees, including two senior vice presidents. In addition, commission expense was lower for the three months ended April 30, 2017 due to lower revenues and a change in the commission payment policy. Partially offsetting the decrease for each period is an increase in marketing payroll costs resulting from the addition of employees from the DCC Labs acquisition in May 2016.

General and Administrative

The following table provides information regarding the change in general and administrative expenses during the periods presented:

	Three Months Ended April 30,		Increase/ (Decrease)	Increase/ (Decrease)
	2017	2016	$ Amount	% Change
	(Amounts in thousands, except for percentage data)			
General and administrative expenses	$ 3,643	$ 4,071	$ (428)	(10.5%)
% of total revenues	21.9%	18.9%		

General and administrative expenses consist primarily of employee costs, which include salaries and related payroll taxes and benefit-related costs, legal and accounting services and an allocation of related facilities expenses. General and administrative expenses decreased in the three months ended April 30, 2017, as compared to the same period of fiscal 2017, primarily due to a decrease in labor costs resulting from the reduction of our headcount as part of our cost-savings initiatives implemented in the second half of fiscal 2017. This decrease was partially offset by an increase in professional fees, such as internal and external audit fees as well as consulting work for research on executive and board compensation.

Amortization of Intangible Assets

The following table provides information regarding the change in amortization of intangible assets expenses during the periods presented:

	Three Months Ended April 30,		Increase/ (Decrease)	Increase/ (Decrease)
	2017	2016	$ Amount	% Change
	(Amounts in thousands, except for percentage data)			
Amortization of intangible assets	$ 598	$ 766	$ (168)	(21.9%)
% of total revenues	3.6%	3.6%		

Amortization expense relates to the costs of acquired intangible assets and capitalized internally-developed software costs. The decrease in amortization expense for the three months ended April 30, 2017, as compared to the same period of fiscal 2017, is primarily due to the fully amortized intangible assets from prior acquisitions. These decreases were offset by an increase in amortization expense for the addition of amortization of intangible assets related to our acquisition of DCC Labs in May 2016.

Stock-based Compensation Expense

The following table provides information regarding the change in stock-based compensation expense during the periods presented:

	Three Months Ended April 30,		Increase/ (Decrease)	Increase/ (Decrease)
	2017	2016	$ Amount	% Change
	(Amounts in thousands, except for percentage data)			
Stock-based compensation expense	$ 877	$ 112	$ 765	>100%
% of total revenues	5.3%	0.5%		

Stock-based compensation expense is related to the issuance of stock grants to our employees, executives and members of our Board of Directors. Stock-based compensation expense increased $0.8 million for the three months ended April 30, 2017, as compared to the same period in fiscal 2017, primarily due to the reversal of our former CEO's stock-based compensation in the first quarter of fiscal 2017 upon his departure from the Company. This increase is partially offset by a decrease in stock-based compensation expense related to non-performance based RSUs due to lower grant day stock prices.

Severance and Other Restructuring Costs

The following table provides information regarding the change in severance and other restructuring costs during the periods presented:

	Three Months Ended April 30, 2017	Three Months Ended April 30, 2016	Increase/ (Decrease) $ Amount	Increase/ (Decrease) % Change
	(Amounts in thousands, except for percentage data)			
Severance and other restructuring costs	$ 2,147	$ 1,775	$ 372	21.0%
% of total revenues	12.9%	8.2%		

Severance and other restructuring costs increased $0.4 million for the three months ended April 30, 2017, as compared to the same period of fiscal 2017. Charges in fiscal 2017 included $0.7 million related to the restructuring activities of our Timeline Labs operations and $1.0 million of recorded severance to our former CEO. In fiscal 2018 the $2.1 million in charges are related to a cost reduction initiative implemented in the second half of fiscal 2017 which we expect to be completed by the end of fiscal 2018.

Other Income, Net

The table below provides detail regarding our other income, net:

	Three Months Ended April 30, 2017	Three Months Ended April 30, 2016	Increase/ (Decrease) $ Amount	Increase/ (Decrease) % Change
	(Amounts in thousands, except for percentage data)			
Interest income, net	$ 27	$ 39	$ (12)	(30.8%)
Foreign exchange gain	241	874	(633)	(72.4%)
Miscellaneous income	98	9	89	>100%
	$ 366	$ 922	$ (556)	

For the three months ended April 30, 2017, foreign exchange gains decreased by $0.6 million, as compared to the same period of fiscal 2017, due to the strengthening of the U.S. dollar compared to other foreign currencies, primarily the British Pound and Euro.

Income Tax Provision

	Three Months Ended April 30, 2017	Three Months Ended April 30, 2016	Increase/ (Decrease) $ Amount	Increase/ (Decrease) % Change
	(Amounts in thousands, except for percentage data)			
Income tax provision	$ 269	$ 254	$ 15	5.9.%
% of total revenues	1.6%	1.2%		

We recorded an income tax provision of $0.3 million for each of the three months ended April 30, 2017 and 2016. Our effective tax rate in fiscal 2018 and in future periods may fluctuate on a quarterly basis as a result of changes in our jurisdictional forecasts where losses cannot be benefitted due to the existence of valuation allowances on our deferred tax assets, changes in actual results versus our estimates, or changes in tax laws, regulations, accounting principles, or interpretations thereof.

The Company reviews all available evidence to evaluate the recovery of deferred tax assets, including the recent history of losses in all tax jurisdictions, as well as its ability to generate income in future periods. As of April 30, 2017, due to the uncertainty related to the ultimate use of certain deferred income tax assets, the Company has recorded a valuation allowance on certain of its deferred assets.

We file income tax returns in the U.S. federal jurisdiction, various state jurisdictions, and various foreign jurisdictions. We have closed out an audit with the Internal Revenue Service ("IRS") through fiscal 2013, however, the taxing authorities will still have the ability to review the propriety of certain tax attributes created in closed years if such tax attributes are utilized in an open tax year, such as our federal research and development credit carryovers.

Non-GAAP Measures.

We define non-GAAP (loss) income from operations as U.S. GAAP operating loss plus stock-based compensation expenses, amortization of intangible assets, provision for loss contract, non-operating expense professional fees and severance and other restructuring costs. We discuss non-GAAP (loss) income from operations in our quarterly earnings releases and certain other communications as we believe non-GAAP operating (loss) income from operations is an important measure that is not calculated according to U.S. GAAP. We use non-GAAP (loss) income from operations in internal forecasts and models when establishing internal operating budgets, supplementing the financial results and forecasts reported to our Board of Directors, determining a component of bonus compensation for executive officers and other key employees based on operating performance and evaluating short-term and long-term operating trends in our operations. We believe that the non-GAAP (loss) income from operations financial measure assists in providing an enhanced understanding of our underlying operational measures to manage the business, to evaluate performance compared to prior periods and the marketplace, and to establish operational goals. We believe that the non-GAAP financial adjustments are useful to investors because they allow investors to evaluate the effectiveness of the methodology and information used by management in our financial and operational decision-making.

Non-GAAP (loss) income from operations is a non-GAAP financial measure and should not be considered in isolation or as a substitute for financial information provided in accordance with U.S. GAAP. This non-GAAP financial measure may not be computed in the same manner as similarly titled measures used by other companies. We expect to continue to incur expenses similar to the financial adjustments described above in arriving at non-GAAP (loss) income from operations and investors should not infer from our presentation of this non-GAAP financial measure that these costs are unusual, infrequent or non-recurring.

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The following table includes the reconciliations of our U.S. GAAP loss from operations, the most directly comparable U.S. GAAP financial measure, to our non-GAAP (loss) income from operations for the three months ended April 30, 2017 and 2016 (amounts in thousands, except per share and percentage data):

	Three Months Ended April 30, 2017			Three Months Ended April 30, 2016		
	GAAP As Reported	Adjustments	Non-GAAP	GAAP As Reported	Adjustments	Non-GAAP
Revenues:						
Products	$ 2,749	$ —	$ 2,749	$ 4,200	$ —	$ 4,200
Services	13,918	—	13,918	17,370	—	17,370
Total revenues	16,667	—	16,667	21,570	—	21,570
Cost of revenues:						
Products	554	—	554	1,574	—	1,574
Services	5,807	—	5,807	10,459	—	10,459
Provision for loss contract	173	(173)	—	—	—	—
Amortization of intangible assets	254	(254)	—	316	(316)	—
Stock-based compensation	2	(2)	—	72	(72)	—
Total cost of revenues	6,790	(429)	6,361	12,421	(388)	12,033
Gross profit	9,877	429	10,306	9,149	388	9,537
Gross profit percentage	59.3%	2.6%	61.9%	42.4%	1.8%	44.2%
Operating expenses:						
Research and development	5,378	—	5,378	8,699	—	8,699
Selling and marketing	2,937	—	2,937	3,557	—	3,557
General and administrative	3,643	—	3,643	4,071	—	4,071
Amortization of intangible assets	344	(344)	—	450	(450)	—
Stock-based compensation expense	875	(875)	—	40	(40)	—
Professional fees: other	21	(21)	—	132	(132)	—
Severance and other restructuring costs	2,147	(2,147)	—	1,775	(1,775)	—
Total operating expenses	15,345	(3,387)	11,958	18,724	(2,397)	16,327
(Loss) income from operations	$ (5,468)	$ 3,816	$ (1,652)	$ (9,575)	$ 2,785	$ (6,790)
(Loss) income from operations percentage	(32.8%)	22.9%	(9.9%)	(44.4%)	12.9%	(31.5%)
Weighted average common shares outstanding:						
Basic	35,309	35,309	35,309	34,354	34,354	34,354
Diluted	35,309	35,410	35,309	34,354	34,492	34,354
Non-GAAP operating (loss) income per share:						
Basic	$ (0.16)	$ 0.11	$ (0.05)	$ (0.28)	$ 0.08	$ (0.20)
Diluted	$ (0.16)	$ 0.11	$ (0.05)	$ (0.28)	$ 0.08	$ (0.20)

The changes in the table above during the three months ended April 30, 2017, compared to the same period of 2016, were a result of the factors described in connection with revenues and operating expenses under Item 2. *"Management's Discussion and Analysis of Financial Conditions and Results of Operations – Results of Operations,"* of this Form 10-Q.

In managing and reviewing our business performance, we exclude a number of items required by U.S. GAAP. Management believes that excluding these items is useful in understanding the trends and managing our operations. We provide these supplemental non-GAAP measures in order to assist the investment community in seeing SeaChange through the "eyes of management," and therefore enhance the understanding of SeaChange's operating performance. Non-GAAP financial measures should be viewed in addition to, not as an alternative to, our reported results prepared in accordance with U.S. GAAP. Our non-GAAP financial measures reflect adjustments based on the following items:

Provision for Loss Contract. We entered a fixed-price customer contract on a multi-year arrangement, which included multiple vendors. As the system integrator on the project, we are subject to any cost overruns or increases with these vendors resulting in delays of acceptance by our customer. Delays of customer acceptance on this project result in incremental expenditures and require us to recognize a loss on this project in the period the determination is made. As a result, we recorded an estimated loss of $9.2 million in fiscal 2016. Subsequently, because of changes in the scope of the project and negotiations with the fixed-price customer, we recorded adjustments since fiscal 2016 totaling $3.9 million to reduce this estimated loss. We believe that the exclusion of this expense allows a comparison of operating results that would otherwise impair comparability between periods.

Amortization of Intangible Assets. We incur amortization expense of intangible assets related to various acquisitions that have been made in recent years. These intangible assets are valued at the time of acquisition, are then amortized over a period of several years after the acquisition and generally cannot be changed or influenced by management after the acquisition. We believe that exclusion of these expenses allows comparisons of operating results that are consistent over time for the Company's newly-acquired and long-held businesses.

Stock-based Compensation Expense. We incur expenses related to stock-based compensation included in our U.S. GAAP presentation of cost of revenues and operating expenses. Although stock-based compensation is an expense we incur and is viewed as a form of compensation, the expense varies in amount from period to period, and is affected by market forces that are difficult to predict and are not within the control of management, such as the market price and volatility of our shares, risk-free interest rates and the expected term and forfeiture rates of the awards.

Professional Fees - Other. We have excluded the effect of legal and other professional costs associated with our acquisitions, divestitures, litigation and strategic alternatives because the amounts are considered significant non-operating expenses.

Severance and Other Restructuring Costs. We incur charges due to the restructuring of our business, including severance charges and facility reductions resulting from our restructuring and streamlining efforts and any changes due to revised estimates, which we generally would not have otherwise incurred in the periods presented as part of our continuing operations.

Off-Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Liquidity and Capital Resources

The following table includes key line items of our consolidated statements of cash flows:

	Three Months Ended April 30,		Increase/ (Decrease)
	2017	2016	$ Amount
	(Amounts in thousands)		
Total cash used in operating activities	$ (917)	$(5,486)	$ 4,569
Total cash provided by (used in) investing activities	25	(767)	792
Total cash provided by (used in) financing activities	17	(46)	63
Effect of exchange rate changes on cash	(584)	(922)	338
Net decrease in cash and cash equivalents	$(1,459)	$(7,221)	$ 5,762

Historically, we have financed our operations and capital expenditures primarily with cashon-hand. Cash, cash equivalents, restricted cash, and marketable securities decreased from $38.7 million at January 31, 2017 to $37.1 million at April 30, 2017.

We continue to realize the savings related to the restructuring of ourIn-Home business from Milpitas to Poland. Additionally, during the first quarter of fiscal 2018, we made significant reductions to our headcount as part of our ongoing restructuring effort of which we expect to generate annualized savings of approximately $10 million. These measures are important steps in restoring SeaChange to profitability and positive cash flow. The Company believes that existing funds and cash expected to be provided by future operating activities, augmented by the plans highlighted above, are adequate to satisfy our working capital, potential acquisitions and capital expenditure requirements and other contractual obligations for the foreseeable future, including at least the next 12 months.

However, if our expectations are incorrect, we may need to raise additional funds to fund our operations, to take advantage of unanticipated strategic opportunities or to strengthen our financial position. In the future, we may enter into other arrangements for potential investments in, or acquisitions of, complementary businesses, services or technologies, which could require us to seek additional equity or debt financing. Additional funds may not be available on favorable terms.

In addition, we actively review potential acquisitions that would complement our existing product offerings, enhance our technical capabilities or expand our marketing and sales presence. Any future transaction of this nature could require potentially significant amounts of capital or could require us to issue our stock and dilute existing stockholders. If adequate funds are not available, or are not available on acceptable terms, we may not be able to take advantage of market opportunities, to develop new products or to otherwise respond to competitive pressures.

In the second quarter of fiscal 2017, following a review of our operations, liquidity and funding, and investment in our product roadmap, we determined that the ability to access cash resulting from earnings in prior fiscal years that had previously been deemed permanently restricted for foreign investment would provide greater flexibility to meet the Company's working capital needs. Accordingly, in the second quarter of fiscal 2017, we withdrew the permanent reinvestment assertion on $58.6 million of earnings generated by our Irish operations through July 2016. We recorded a deferred tax liability of $14.7 million related to the foreign income taxes on $58.6 million of undistributed earnings. The balance of the deferred tax liability as of April 30, 2017 is $15.1 million.

Operating Activities

Below are key line items affecting cash from operating activities:

	Three Months Ended April 30, 2017	Three Months Ended April 30, 2016	Increase/ (Decrease) $ Amount
	(Amounts in thousands)		
Net loss	$ (5,371)	$(8,907)	$ 3,536
Adjustments to reconcile net loss to cash used in operating activities	2,564	1,712	852
Net loss including adjustments	(2,807)	(7,195)	4,388
Decrease in receivables	10,239	4,699	5,540
Decrease (increase) in inventory	154	(91)	245
Decrease in prepaid expenses and other current assets	403	853	(450)
Decrease in accounts payable	(1,717)	(1,736)	19
Decrease in accrued expenses	(3,865)	(2,125)	(1,740)
(Decrease) increase in deferred revenues	(3,310)	80	(3,390)
All other - net	(14)	29	(43)
Net cash used in operating activities	$ (917)	$(5,486)	$ 4,569

We used net cash in operating activities of $0.9 million for the three months ended April 30, 2017. This cash used in operating activities was primarily the result of our net loss including adjustments of $2.8 million offset by changes in working capital, which include a decrease in receivables of $10.2 million due to the timing of customer payments, offset by a decrease in accrued expenses of $3.9 million related to the payment of severance and bonuses, a $3.3 million decrease in deferred revenue and a $1.7 million decrease in accounts payable due to the timing of payments to vendors.

Investing Activities

Cash flows from investing activities are as follows:

	Three Months Ended April 30, 2017	Three Months Ended April 30, 2016	Increase/ (Decrease) $ Amount
	(Amounts in thousands)		
Purchases of property and equipment	$ (196)	$ (159)	$ (37)
Purchases of marketable securities	—	(502)	502
Other investing activities	221	(106)	327
Net cash provided by (used in) investing activities	$ 25	$ (767)	$ 792

Cash provided by investing activities include the release of restricted cash of $0.1 million and $0.1 million in proceeds from the sale of property and equipment during the quarter. This was offset by cash used of $0.2 million for the purchase of capital assets during the quarter.

Financing Activities

Cash flows from financing activities are as follows:

	Three Months Ended April 30, 2017	Three Months Ended April 30, 2016	Increase/ (Decrease) $ Amount
	(Amounts in thousands)		
Proceeds from issuance of common stock	$ 26	$ 33	$ (7)
Payments of withholding tax on RSU vesting	(9)	(76)	67
Other financing activities	—	(3)	3
Net cash provided by (used in) financing activities	$ 17	$ (46)	$ 63

In the three months ended April 30, 2017, cash provided by financing activities reflects proceeds received from the issuance of common stock for the employee stock purchase plan.

The effect of exchange rate changes decreased cash and cash equivalents by $0.6 million for the three months ended April 30, 2017, primarily due to the translation of European subsidiaries' cash balances, which use the Euro as their functional currency, to U.S. dollars.

Effects of Inflation

Management believes that financial results have not been significantly impacted by inflation and price changes in materials we use in manufacturing our products.

Contractual Obligations

There have been no significant changes outside the ordinary course of our business in our contractual obligations disclosed in our Form10-K for the fiscal year ended January 31, 2017.

Critical Accounting Policies and Significant Judgment and Estimates

The accounting and financial reporting policies of SeaChange are in conformity with U.S. GAAP, which requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and disclosure of contingent assets and liabilities. We evaluate our estimates on an on-going basis, including those related to revenue recognition, allowance for doubtful accounts, acquired intangible assets and goodwill, stock-based compensation, impairment of long-lived assets and accounting for income taxes. Our estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Revenue Recognition

Our transactions frequently involve the sales of hardware, software, systems and services in multiple-element arrangements. Revenues from sales of hardware, software and systems that do not require significant modification or customization of the underlying software are recognized when:

- persuasive evidence of an arrangement exists;
- delivery has occurred, and title and risk of loss have passed to the customer;
- fees are fixed or determinable; and
- collection of the related receivable is considered probable.

Customers are billed for installation, training, project management and at least one year of product maintenance and technical support at the time of the product sale. Revenue from these activities is deferred at the time of the product sale and recognized ratably over the period these services are performed. Revenue from ongoing product maintenance and technical support agreements is recognized ratably over the period of the related agreements. Revenue from software development contracts that include significant modification or customization, including software product enhancements, is recognized based on the percentage of completion contract accounting method using labor efforts expended in relation to estimates of total labor efforts to complete the contract. The percentage of completion method requires that adjustments or re-evaluations to estimated project revenues and costs be recognized on aproject-to-date cumulative basis, as changes to the estimates are identified. Revisions to project estimates are made as additional information becomes known, including information that becomes available after the date of the consolidated financial statements up through the date such consolidated financial statements are filed with the SEC. If the final estimated profit to complete a long-term contract indicates a loss, a provision is recorded immediately for the total loss anticipated. Accounting for contract amendments and customer change orders are included in contract accounting when executed. Revenue from shipping and handling costs and other out-of-pocket expenses reimbursed by customers are included in revenues and cost of revenues. Our share of intercompany profits associated with sales and services provided to affiliated companies are eliminated in consolidation in proportion to our equity ownership.

Contract accounting requires judgment relative to assessing risks, estimating revenues and costs and making assumptions including, in the case of our professional services contracts, the total amount of labor required to complete a project and the complexity of the development and other technical work to be completed. Due to the size and nature of many of our contracts, the estimation of total revenues and cost at completion is complicated and subject to many variables. Assumptions must be made regarding the length of time to complete the contract because costs also include estimated third-party vendor and contract labor costs. Penalties related to performance on contracts are considered in estimating sales and profit, and are recorded when there is sufficient information for us to assess anticipated performance. Third-party vendors' assertions are also assessed and considered in estimating costs and margin.

Revenue from the sale of software-only products remains within the scope of the software revenue recognition rules. Maintenance and support, training, consulting, and installation services no longer fall within the scope of the software revenue recognition rules, except when they are sold with and relate to a software-only product. Revenue recognition for products that no longer fall under the scope of the software revenue recognition rules is like that for other tangible products and Accounting Standard Update No. ("ASU") 2009-13, *"Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements,"* amended ASC 605 and is applicable for multiple-deliverable revenue arrangements. ASU 2009-13 allows companies to allocate revenue in a multiple-deliverable arrangement in a manner that better reflects the transaction's economics.

Under the software revenue recognition rules, the fee is allocated to the various elements based on vendor-specific objective evidence ("VSOE") of fair value. Under this method, the total arrangement value is allocated first to undelivered elements based on their fair values, with the remainder being allocated to the delivered elements. Where fair value of undelivered service elements has not been established, the total arrangement value is recognized over the period during which the services are performed. The amounts allocated to undelivered elements, which may include project management, training, installation, maintenance and technical support and certain hardware and software components, are based upon the price charged when these elements are sold separately and unaccompanied by the other elements. The amount allocated to installation, training and project management revenue is based upon standard hourly billing rates and the estimated time necessary to complete the service. These services are not essential to the functionality of systems as these services do not alter the equipment's capabilities, are available from other vendors and the systems are standard products. For multiple-element arrangements that include software development with significant modification or customization and systems sales where VSOE of the fair value does not exist for the undelivered elements of the arrangement (other than maintenance and technical support), percentage of completion accounting is applied for revenue recognition purposes to the entire arrangement except for maintenance and technical support.

Under the revenue recognition rules for tangible products as amended by ASU2009-13, the fee from a multiple-deliverable arrangement is allocated to each of the deliverables based upon their relative selling prices as determined by a selling-price hierarchy. A deliverable in an arrangement qualifies as a separate unit of accounting if the delivered item has value to the customer on a stand-alone basis. A delivered item that does not qualify as a separate unit of accounting is combined with the other undelivered items in the arrangement and revenue is recognized for those combined deliverables as a single unit of accounting. The selling price used for each deliverable is based upon VSOE if available, third-party evidence ("TPE") if VSOE is not available, and best estimate of selling price ("BESP") if neither VSOE nor TPE are available. TPE is the price of the Company's, or any competitor's, largely interchangeable products or services in stand-alone sales to similarly situated customers. BESP is the price at which we would sell the deliverable if it were sold regularly on a stand-alone basis, considering market conditions and entity-specific factors.

The selling prices used in the relative selling price allocation method for certain of our services are based upon VSOE. The selling prices used in the relative selling price allocation method for third-party products from other vendors are based upon TPE. The selling prices used in the relative selling price allocation method for our hardware products, software, subscriptions, and customized services for which VSOE does not exist are based upon BESP. We do not believe TPE exists for these products and services because they are differentiated from competing products and services in terms of functionality and performance and there are no competing products or services that are largely interchangeable. Management establishes BESP with consideration for market conditions, such as the impact of competition and geographic considerations, and entity-specific factors, such as the cost of the product, discounts provided and profit objectives. Management believes that BESP is reflective of reasonable pricing of that deliverable as if priced on a stand-alone basis.

For our cloud and managed service revenues, we generate revenue from two sources: (1) subscription and support services; and (2) professional services and other. Subscription and support revenue includes subscription fees from customers accessing our cloud-based software platform and support fees. Our arrangements with customers do not provide the customer with the right to take possession of the software supporting the cloud-based software platform at any time. Professional services and other revenue include fees from implementation and customization to support customer requirements. Amounts that have been invoiced are recorded in accounts receivable and in deferred revenue or revenue, depending on whether the revenue recognition criteria have been met. For the most part, subscription and support agreements are entered into for 12 to 36 months. Generally, most of the professional services components of the arrangements with customers are performed within a year of entering a contract with the customer.

In most instances, revenue from a new customer acquisition is generated under sales agreements with multiple elements, comprised of subscription and support and other professional services. We evaluate each element in a multiple-element arrangement to determine whether it represents a separate unit of accounting. An element constitutes a separate unit of accounting when the delivered item has standalone value and delivery of the undelivered element is probable and within our control.

In determining when to recognize revenue from a customer arrangement, we are often required to exercise judgment regarding the application of our accounting policies to an arrangement. The primary judgments used in evaluating revenue recognized in each period involve: determining whether collection is probable, assessing whether the fee is fixed or determinable, and determining the fair value of the maintenance and service elements included in multiple-element software arrangements. Such judgments can materially impact the amount of revenue that we record in a given period. While we follow specific and detailed rules and guidelines related to revenue recognition, we make and use significant management judgments and estimates about the revenue recognized in any reporting period, particularly in the areas described above. If management made different estimates or judgments, material differences in the timing of the recognition of revenue could occur.

Recent Accounting Standard Updates

Recently Issued Accounting Standard Updates – Not Yet Adopted

We consider the applicability and impact of all ASUs. Updates not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on our consolidated financial position or results of operations. Recently issued ASUs which we feel may be applicable to us but have not yet been adopted are as follows:

Revenue from Contracts with Customers (Topic 606)

In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU2014-09, *“Revenue from Contracts with Customers (Topic 606),”* to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and the International Financial Reporting Standards. This guidance supersedes previously issued guidance on revenue recognition and gives a five step process an entity should follow so that the entity recognizes revenue that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In July 2015, the FASB deferred the effective date of this guidance to annual reporting periods beginning after December 15, 2017, which would be our fiscal 2019 reporting period. Early adoption is permitted.

Subsequently, the FASB issued ASUs in 2016 containing implementation guidance related to ASU2014-09. In March 2016, the FASB issued ASU2016-10, *“Principal versus Agent Considerations (Reporting Revenue Gross versus Net),”* which finalizes its amendments to the guidance in the new revenue standard on assessing whether an entity is a principal or an agent in a revenue transaction. This conclusion impacts whether an entity reports revenue on a gross or net basis. In April 2016, the FASB issued ASU 2016-08 *“Identifying Performance Obligations and Licensing,”* which finalizes its amendments to the guidance in the new revenue standard regarding the identification of performance obligations and accounting for the license of intellectual property. And in May 2016, the FASB issued ASU 2016-12, *“Narrow-Scope Improvements and Practical Expedients”* which finalizes its amendments to the guidance in the new revenue standard on collectability, noncash consideration, presentation of sales tax, and transition. The amendments are intended to make the guidance more operable and lead to more consistent application. The amendments have the same effective date and transition requirements as the new revenue recognition standard. We are continuing to evaluate what impact future adoption of this guidance will have on our consolidated financial statements.

Leases

In February 2016, the FASB issued ASU2016-02, *"Leases (Topic 842)."* ASU 2016-02 requires a lessee to recognize a right-of-use asset and a lease liability for operating leases with terms over twelve months, initially measured at the present value of the lease payments, in its balance sheet. The standard also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, on a generally straight-line basis. It also requires lessees to classify leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase of the leased asset by the lessee. This classification will determine whether the lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. ASU 2016-02 is effective for us in the first quarter of fiscal 2020. Early adoption is permitted. We are currently evaluating what impact the adoption of this update will have on our consolidated financial statements.

Cash Flow Statement

In August 2016, the FASB issued ASU2016-15, *"Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments,"* ASU 2016-15 provides guidance on the classification of certain cash receipts and payments in the statement of cash flows where diversity in practice exists. The guidance is effective for interim and annual periods beginning in our first quarter of fiscal 2019, and early adoption is permitted. ASU 2016-15 must be applied retrospectively to all periods presented but may be applied prospectively if retrospective application would be impracticable. We are currently evaluating what impact the adoption of this update will have on our consolidated financial statements.

In November 2016, the FASB issued ASU2016-18, *"Statement of Cash Flows (Topic 230): Restricted Cash."* ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning and ending balances shown on the statement of cash flows. The guidance is effective for us in the first quarter of fiscal 2019 and early adoption is permitted. ASU 2016-18 must be applied retrospectively to all periods presented. We are currently evaluating what impact the adoption of this update will have on our consolidated financial statements.

Intangibles-Goodwill and Other

In January 2017, the FASB issued ASU2017-04, *"Intangibles-Goodwill and Other (Topic 350),* which simplifies the subsequent measurement of goodwill by removing "Step 2" of the two-step impairment test. The amendment requires an entity to perform its annual, or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. A goodwill impairment will be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The guidance is effective for us beginning in the first quarter of fiscal 2021. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We are currently evaluating what impact the adoption of this update will have on our consolidated financial statements.

Stock Compensation

In May 2017, the FASB issued ASU2017-09, *"Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting,*which provides guidance about which changes to the terms or conditions of a share-based payment awards require an entity to apply modification accounting under ASC 718. The guidance is effective for us beginning in the first quarter of fiscal 2019 and early adoption is permitted. We do not expect that the adoption of this guidance will have a material impact on our consolidated financial statements.

Recently Issued Accounting Standard Updates – Adopted During the Period

Stock Compensation

In March 2016, the FASB issued ASU2016-09, *"Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting."* ASU 2016-09 intended to simplify several aspects of the accounting for share-based payment transactions, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statements of cash flows.

We adopted this guidance effective February 1, 2017, the beginning of our fiscal 2018. Upon adoption, excess tax benefits from share-based award activity are reflected in the consolidated statements of operations and comprehensive loss as a component of income tax provision, whereas previously, such income tax benefits were recognized as part of additional paid-in capital and could not be recognized until they were realized through a reduction in income taxes payable. Due to our current net operating loss and valuation allowance position, the new standard will not immediately cause volatility in our effective tax rates and earnings per share due to the tax effects related to share-based payments being recorded to the consolidated statements of operations and comprehensive loss. We have excess tax benefits of $1.8 million that increased the deferred tax assets related to our various tax attribute carryforwards upon adoption of ASU 2016-09 and a corresponding increase to our valuation allowance, consistent with our existing valuation allowance assessment. The volatility in future periods will depend on the valuation allowance, our stock price at the awards' vest dates, and the number of awards that vest in each period. We have elected to continue to estimate the number of stock-based awards expected to vest, as permitted by the guidance, rather than electing to account for forfeitures as they occur.

This ASU requires that employee taxes paid when an employer withholds shares for tax-withholding purposes be reported as financing activities in the consolidated statements of cash flows. Previously, these cash flows were included in operating activities. This change was required to be applied on a retrospective basis and we have made the appropriate changes to the statements of cash flows as of April 30, 2017 and 2016 included in this Form 10-Q

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Exchange Risk

We face exposure to financial market risks, including adverse movements in foreign currency exchange rates and changes in interest rates. These exposures may change over time as business practices evolve and could have a material adverse impact on our financial results. Our foreign currency exchange exposure is primarily associated with product sales arrangements or settlement of intercompany payables and receivables among subsidiaries and their parent company, and/or investment/equity contingency considerations denominated in the local currency where the functional currency of the foreign subsidiary is the U.S. dollar.

Our principal currency exposures relate primarily to the U.S. dollar, the Euro and the Philippine peso. All foreign currency gains and losses are included in other income, net, in the accompanying consolidated statements of operations and comprehensive loss. For the three months ended April 30, 2017, we recorded $0.2 million in gains due to the international subsidiary translations and cash settlements of revenues and expenses.

A substantial portion of our earnings are generated by our foreign subsidiaries whose functional currency is other than the U.S. dollar. Therefore, our earnings could be materially impacted by movements in foreign currency exchange rates upon the translation of the subsidiary's earnings into the U.S. dollar. If the U.S. dollar had strengthened by 10% compared to the Euro, our total revenues would have decreased by $0.5 million for the three months ended April 30, 2017 and it would have increased our loss from operations by $0.2 million.

Interest Rate Risk

Exposure to market risk for changes in interest rates relates primarily to our investment portfolio of marketable debt securities of various issuers, types and maturities. We do not use derivative instruments in our investment portfolio, and our investment portfolio only includes highly liquid instruments. Our cash and marketable securities include cash equivalents, which we consider to be investments purchased with original maturities of 90 days or less. There is risk that losses could be incurred if we were to sell any of our securities prior to stated maturity. Given the short maturities and investment grade quality of the portfolio holdings at April 30, 2017, a hypothetical 10% adverse change in interest rates should not have a material adverse impact on the fair value of our investment portfolio.

ITEM 4. Controls and Procedures

Evaluation of disclosure controls and procedures. We evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this Form 10-Q. Edward Terino, our Chief Executive Officer, and Peter R. Faubert, our Chief Financial Officer, reviewed and participated in this evaluation. Based upon that evaluation, Messrs. Terino and Faubert concluded that our disclosure controls and procedures were not operating effectively as of April 30, 2017. Our disclosure controls and procedures were not effective because of the continued impact of the material weaknesses identified and described in the *"Report of Management on Internal Control over Financial Reporting"* included in Item 9A of our Form 10-K for fiscal year ended January 31, 2017 relating to the design of controls around certain professional services revenue recognition on projects generating revenue of less than $25,000 per month, deferred revenue related to undelivered products reconciled the month prior to quarter end and rolled forward and journal entry review processes at an international subsidiary for journal entries less than $50,000. In addition, as of January 31, 2017, we identified an ineffective control related to currency translation adjustments arising from intercompany notes.

Notwithstanding the material weaknesses discussed above, our management, including our Chief Executive Officer and Chief Financial Officer, believes that the consolidated financial statements contained in this Form 10-Q present fairly, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with U.S. GAAP. These material weaknesses did not result in any adjustments or restatements of our audited and unaudited consolidated financial statements or disclosures for any prior period previously reported by the Company.

While certain actions have been taken to enhance our internal control over financial reporting relating to the material weaknesses described in the Form10-K, we are still in the process of implementing our comprehensive remediation plan. As previously disclosed in our Annual Report on Form 10-K, the following actions have begun:

- We are enhancing our internal controls over financial reporting to expand our review of professional services revenue to include revenue recognized on projects below $25,000. In addition, we are developing a system improvement to allow us to review deferred revenue related to undelivered products at quarter end.
- We are enhancing our internal controls over financial reporting to include a review of all journal entries at an international subsidiary to ensure the journal entries are complete and accurate. In addition, the corporate controller will review the journal entries from this international subsidiary on a quarterly basis.
- We are enhancing our internal controls over financial reporting to develop a process whereby the corporate controller and tax director will review the impact of currency translation adjustments on intercompany notes payable on a quarterly basis.

The status of our remediation plan is being, and will continue to be, reported by management to the Audit Committee of the Board of Directors on a regular basis. In addition, we have assigned personnel to oversee the remedial changes to the overall design of our internal control environment and to address the root causes of our material weaknesses. Remediation generally requires making changes to how controls are designed and then adhering to those changes for a sufficient period of time such that the operating effectiveness of those changes is demonstrated through testing.

As we continue to evaluate and work to improve our internal control over financial reporting, we may take additional measures to address these control deficiencies or modify our remediation plan. We cannot make assurances, however, of when we will remediate such weaknesses, nor can we be certain of whether additional actions will be required.

Changes in internal control over financial reporting. As a result of the evaluation completed by us, and in which Messrs. Terino and Faubert participated, we have concluded that, except as described above with respect to our remediation plan, there were no changes during the fiscal quarter ended April 30, 2017 in our internal control over financial reporting, which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

We enter into agreements in the ordinary course of business with customers, resellers, distributors, integrators and suppliers. Most of these agreements require us to defend and/or indemnify the other party against intellectual property infringement claims brought by a third party with respect to our products. From time to time, we also indemnify customers and business partners for damages, losses and liabilities they may suffer or incur relating to personal injury, personal property damage, product liability, and environmental claims relating to the use of our products and services or resulting from the acts or omissions of us, our employees, authorized agents or subcontractors. Management cannot reasonably estimate any potential losses, but these claims could result in material liability for us.

ITEM 1A. Risk Factors

In addition to other information set forth in this Form10-Q, you should carefully consider the risk factors discussed in Part I, “Item 1A. Risk Factors” in our Form10-K for the fiscal year ended January 31, 2017, which could materially affect our business, financial conditions, and results of operations. The risks described in our Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

ITEM 6. Exhibits

(a) Exhibits

See the Exhibit Index following the signature page to this Form 10-Q.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, SeaChange International, Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: June 7, 2017

SEACHANGE INTERNATIONAL, INC.

by: /s/ PETER R. FAUBERT

Peter R. Faubert
Chief Financial Officer, Senior Vice President, Finance and Administration and Treasurer

Index to Exhibits

No.	Description
31.1	Certification Pursuant to Rule 13a-14(a) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification Pursuant to Rule 13a-14(a) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

Exhibit 31.1

CERTIFICATION

I, Edward Terino, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SeaChange International, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a – 15(f) and 15d – 15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: June 7, 2017

/s/ EDWARD TERINO

Edward Terino
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Peter R. Faubert, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SeaChange International, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a – 15(f) and 15d – 15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: June 7, 2017

/s/ PETER R. FAUBERT

Peter R. Faubert
Chief Financial Officer, Senior Vice President, Finance and Administration and Treasurer
(Principal Financial and Accounting Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of SeaChange International, Inc. (the “Company”) on Form10-Q for the period ending April 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Edward Terino, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ EDWARD TERINO
Edward Terino
Chief Executive Officer

Dated: June 7, 2017

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of SeaChange International, Inc. (the "Company") on Form10-Q for the period ending April 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Peter R. Faubert, Chief Financial Officer, Senior Vice President, Finance and Administration and Treasurer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ PETER R. FAUBERT

Peter R. Faubert
Chief Financial Officer, Senior Vice President,
Finance and Administration and Treasurer

Dated: June 7, 2017